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BRITISH WAR FINANCE

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1914-15

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BRITISH WAR FINANCE, 1914–15

PROLOGUE

Mankind have never had such a crowd of vital problems to solve—political, ethical, commercial, and financial—as the war of 1914 forced upon them. Neither have they ever had such a formidable array of fierce and sanguinary issues to face as arose out of that life and death struggle of the nations. Never before did so superhuman a conflict draw combatants from all over the globe. Never were factories, workshops, and peaceful homes so emptied of their inmates to provide victims for the deadliest weapons of war.

In every walk of life, every branch of business, every industry, every market and every profession, its malign influence has been felt. The physical, material, and economic ruin it has caused is on a par with its horrible waste of human life. But there has been something also quite as wonderful in another way as these orgies of havoc and butchery. It is the grim resolution and ready resource with which the assailed nations met the onslaught of the Huns. The framework of British civilisation, instead of falling to pieces at the first shock of the German legions (as had been predicted by the Norman Angellites) seemed hardly to feel the blow. Its loosely-jointed sections closed up with a snap, and out of apparent confusion suddenly arose organised human forces which no mere military machine, however perfect in its way, could long withstand.

Strange to say, it was the "decadent" nation, with its "contemptible little army," that exhibited the highest degree of virility and endurance from start to finish of

the opening campaign. Not in war only, but in commerce and finance, we held our own, to the surprise of both friend and foe. Most remarkable of all, it was done with little apparent strain or sacrifice. While the whole community were suffering disastrous losses, and many saw ruin staring them in the face, there was no whining or weeping. People went about without a sigh or a murmur, trying to save the poor remains of their former prosperity. An avalanche had suddenly overwhelmed them, and their only thought was how to get from under it.

The European war of 1914 took Foreign Ministers, diplomatists, and politicians generally even more by surprise than the Franco-German War of 1870 had done. However minutely we search through the newspaper files of the preceding months, we shall find little or no forewarning of the impending calamity. True, there were vague presentiments of a coming Armageddon, but even these were less acute than they had previously been. Our relations with Germany had been materially improved by Sir Edward Grey's settlement of several long standing difficulties, the Bagdad railway question among them. By a curious coincidence, the Foreign Office vote came before the House of Commons on the day after the assassination of the Austrian heir-apparent and his consort at Serajevo. Sir Edward prefaced his statement in moving the vote with an expression of sympathy with the Austrian people and their venerable Sovereign at the tragic loss they had suffered.

The subjects he touched upon in his review of foreign relations were all of an eminently pacific kind. The Panama Canal tolls, the Persian oil concession, the Anglo-Russian convention, the Bagdad railway agreement, the New Hebrides condominium, and the Opium Conference at the Hague were as pacific, not to say prosaic, topics as he could possibly have chosen to discourse upon. And so perfectly satisfied was the House of Commons with the Foreign Secretary's account of his stewardship that only one member asked for further information. And he asked only a single question. Evidently on that sad day there was not the slightest suspicion, either at

the Foreign Office or in the Reichstag, that the effects of the crime could not be confined to the Austrian Empire.

In the continental Chancellories an equally placid atmosphere prevailed. All the principal Foreign Ministers had during the preceding few months delivered themselves of the most pacific sentiments. Even at Berlin, notwithstanding the violent campaigns which were still raging between the German and the Russian press, there had been renewed protestations of friendly feelings all round. Herr von Jagow, in moving the second reading of the Foreign Office estimates, took a moderately cheerful view of the future. Beginning with the Balkan Peninsula, he said, "they had grounds for the hope that the Balkan nations would continue their development economically and culturally in peaceful labour."

It was significant, perhaps, that immediately afterwards he turned to Russia as if she were the chief source of danger to the Balkan settlement. This was the only passage in his speech which had a threatening ring. Undoubtedly, he said, "the anti-German feeling which has long prevailed in a portion of the Russian press had recently been accentuated and led to an almost systematic campaign. Those responsible must not be surprised if the forest shouted back what was shouted into it." Loud cries of assent from all parts of the House greeted this declaration. On the other hand, Herr von Jagow's allusion to the negotiations with England in the Near East (presumably Bagdad) and "the friendly manner which here as elsewhere rules in our relations to England" was heartily applauded. A very non-committal tone was adopted toward France. It was to be welcomed politically, he said, "if we come to an understanding eliminating causes of friction with our western neighbour."

Evidently Russia had been marked out for the next campaign of German culture, and the crushing of France was to be a preliminary incident. Meanwhile the British Foreign Office was to be amused with occasional compliments and conciliatory phrases. Vienna took its cue from Berlin, and Count Berchtold, in his speech to the

Austro-Hungarian Delegations, outdid Herr von Jagow in his praise of the service Great Britain had rendered to the cause of peace. At least one of our antagonists deprived itself very effectively beforehand of the power to reproach us with having desired or meditated war. The following paragraph of Count Berchtold's speech disposes of all the Teutonic fables about our having been actuated by envy of Germany's commercial success:

"As far back as the last sitting of the Delegations I was able to refer to the fact that Great Britain had repeatedly made her voice heard at critical moments in a conciliatory sense, and had contributed not a little to the peaceful settlement of the differences which had arisen. We can perceive in Great Britain's attitude then and since the endeavour to avert such dangers to European peace as those with which the events of the recent past were pregnant. Such a policy is calculated to dispel any misunderstandings which may arise between the two groups of Powers and thus in some measure remedy the defects inherent in the practical operation of a rigid balance of power systems. As to our own relations with Great Britain, they correspond with the traditional friendship binding the Monarchy to the Kingdom. The long visit which the British Mediterranean Fleet is about to pay to our Adriatic ports will afford us an opportunity of giving expression to these traditional sentiments."

It is noteworthy that the Austro-Hungarian Delegations were opened by the late Archduke Franz Ferdinand on behalf of the Emperor. This was the last important public act of his life. Two months later he met his fate at Serajevo, and the self-inflicted doom of the Dual Monarchy was speedily to follow. Another significant coincidence is that the Russian Duma reassembled on the same day (April 29) that the Austro-Hungarian Delegations were opened. In neither case was there the slightest omen of the coming tragedy. The Duma was even more apathetic than usual, and barely one half of its members attended the first sitting. Not a single reference was made to the Balkan crisis, though it was still being hotly discussed in the Petrograd press. The *Novoe Vremya* was publishing a series of remarkable articles

on the Triple Entente, and the probable effect upon it of an attack by the Triple Alliance. They very correctly predicted that Germany's easiest line of advance on Paris would be through Liège and Namur. There were military specialists sanguine enough to calculate that on the fourth day after mobilisation the ever-welcome Uhlans would be riding along the Bois de Boulogne. Nobody dreamed that in the ninth month Paris would be intact and its foiled captors would be entrenching themselves on the Aisne.

A specially interesting passage in these strategical speculations relates to the British Expeditionary Force. The *Novoe Vremya* feared that it could neither arrive in time to be of use, nor be able to find its way about even if it did arrive promptly. The Russian strategist will have been very agreeably surprised on both these points. But to do him justice, he granted a certain moral value to the British force. "The mere knowledge that Great Britain would declare war if Belgian neutrality were violated suffices to remove all temptations in that direction." So our Russian friend thought, but he was wrong again—doubly wrong. Germany violated Belgian neutrality in spite of the British veto, and the Belgians did not take it lying down as they had been expected to do.

In our opening chapters we have described the monetary and the Stock Exchange conditions, amid which the Serajevo tragedy took place. These should be prefaced with a brief sketch of the political conditions. Read now in the light of later events, they have a melancholy significance. When the tragedy happened, the Kaiser was at Kiel, surrounded by yachts and warships. The telegram announcing it had to be sent on board his yacht *Meteor*, which was then engaged in a race. Among his guests there was a British Admiral, Sir George Warrender, with a squadron of Dreadnoughts. Little did either the Kaiser or the British Admiral suspect that a month later the North Sea would be cleared for action.

Sir George Warrender and Sir Edward Goschen were probably the last British visitors to Kiel before the war, and it was characteristic of German tact that during their

stay there the principal topic of discussion in the Berlin press was a fresh extension of the German navy. Officially it was, of course, denied, but both the Centre (Catholic) Party and the Socialists believed in it, and when two such extremes meet, it is hardly likely to be mere gossip that has brought them together. The press agency of the Centre Party began its disclosures on the first day of the Kiel Regatta with a definite prediction that another Navy Law Amendment Bill was in preparation for the coming session of the Reichstag. A semi-official paper, the *Localanzeiger*, gave this a qualified contradiction. While denying the Amendment Bill, it admitted that there would have to be a further increase of personnel in order to maintain in commission the ships already provided for in the existing Navy Law—particularly the foreign service ships. But the Centre Party adhered to their whole statement. Their chief organ, the *Germania*, retorted on the *Localanzeiger*: "There is not only an increase of personnel in sight, but an increase of the ships serving abroad. And what comes later?"

Still another significant coincidence attended the Serajevo tragedy. While one squadron of British battleships was being entertained at Kiel, a second was lying in Kronstadt harbour on a friendly visit to Russia. On Saturday, June 27 (the day before the assassination), it was inspected by the Tsar and Tsaritsa, who honoured Admiral Beatty with their presence at luncheon on board his flagship. The Tsar had previously hoisted his flag on the *Lion* as honorary British Admiral. That Serajevo week witnessed a most singular combination of events—British squadrons in Russian and German waters, a new Navy Bill agitation at Berlin, Sir Edward Grey's annual review of our foreign relations, and the commencement of a new anti-Servian campaign by the Austrians.

The prognostications in which political and diplomatic experts indulged on the morrow of Serajevo were as a rule very unfortunate. Not one of them showed the slightest apprehension of the terrible sequel which deluged Europe with blood. A writer on the political aspects of the murder (*Times*, June 29) concluded his article with a

forecast which has been grievously belied: "The new heir-presumptive is unlikely to tread in his uncle's footsteps. The immediate tendency may be towards stagnation. The constitutional development of the Hapsburg realms seems likely to proceed on steadier lines and the Dual system to maintain for some years to come the ascendancy it has acquired during its forty-seven years of existence."

So much for the wisdom with which the world is governed, for the skill of professional diplomatists, and the genius of heaven-born statesmen. But financiers, and especially "high financiers," have equally little satisfaction in their pre-bellum forecasts. They had as little presentiment of the coming Armageddon as any Foreign Secretary or Minister of War outside Berlin and Vienna. Germany, of course, had her programme all cut and dry. Her "enemies" invariably attack her at the same season of the year—the one most convenient for her. They oblige her by opening the ball in the same month, or even in the same week. She knows then to be ready for them. Sometimes she happens to get ahead of them, but that, of course, is their fault. This time she had a worse start than usual—especially in her war finance.

The war had hardly begun when eloquent proof was given of the magnitude of the financial issues involved in it. International finance was harder and more extensively hit by it than the greatest pessimist could have apprehended. But, on the other hand, it withstood the blow much better than the greatest optimist could have hoped. As fast as declarations of war were launched, bourse after bourse closed. But outside of Berlin there was very little panic. The City remained calm even when the Stock Exchange suddenly closed its doors. The moratorium which was proclaimed three days later puzzled everybody but alarmed nobody.

The public were more concerned about getting change for £5 notes than about the disastrous declines in market values which paralysed business. It was impossible at first for even Lombard Street to realise that the credit machinery of the world had come almost to a dead stop.

During the ten days preceding the crisis there had been a rush of bill-holders to the Bank of England for discounts. The closing of the Stock Exchange intensified this rush to such an extent that the bank had to double its minimum rate, raising it from 4 to 8 per cent. Even this did not stem the flood of bills that poured into Threadneedle Street. Next day the official rate had to be further raised to 10 per cent., and Government intervention became imperative.

The Friday before the war broke out will for generations to come be memorable as the date of unprecedented and inconceivable events in the financial world. That the London Stock Exchange should ever have to close its doors and suspend business would have seemed unthinkable until it actually happened. That London bankers should have to stultify their proud boast about this being the only free market for gold by limiting their gold payments was a startling surprise. That bill brokers, turned away from their customary sources of discount, should have to rush in crowds to the Bank of England and pay 8 per cent. or more on fine bills recalled the panicky days of 1857 and 1866. There was general talk about the suspension of the Bank Act, and that financial humiliation was only staved off by an Argentine expedient—a half-baked issue of 20*s*. and 10*s*. Treasury notes.

If on that stunned and bewildered July 31 the public could have foreseen the many strange expedients and makeshifts that had to be resorted to in the succeeding six months, they might have despaired of ever getting through them, but with patience and good fortune they were all surmounted. If the Government erred at all in its dealings with the City, it was, with one marked exception, in over-zeal rather than in over-caution. The Treasury in particular was more apt to exceed its duty than to fall short of it. The banks, the discount companies, the finance houses, and the leaders of commerce generally stood staunchly by it through all its difficulties.

On the Saturday and Sunday before Bank holiday conferences were held between the Chancellor of the

Exchequer and representative City bankers, at which grave resolutions were adopted. The conferees had a most difficult and responsible choice to make between a number of emergency measures. What was most generally expected of them was a "suspension of the Bank Act," meaning, in stricter language, a suspension of clause 2, which limits the volume of notes to be issued against securities, and requires all issues in excess of that amount to be covered by gold. In the worst financial crises of previous years—those of 1847, 1857, and 1866—this remedy had sufficed, but it had always been a very controversial and ill-understood measure, so it is not surprising that simpler and more up-to-date expedients were preferred.

The most urgent and at the same time the largest question that had to be grappled with was the enormous number of bills of exchange falling due day by day. They far exceeded the seriously-reduced power to meet them. The Bank of England might have been unable to cope with them even if it had been given a free hand as to note issues. Apparently there was no alternative but for the Treasury itself to step in and shoulder the gigantic liability involved. For once the unconventional character of Mr. Lloyd George stood him and the country in good stead. He promptly took a risk which might have appalled any of his more experienced predecessors. No one can imagine Lord Goschen or Sir Michael Hicks Beach giving offhand a Treasury guarantee for all the "approved" bills then in circulation, and authorising the Bank of England to discount them "without recourse against the holders."

When Mr. Lloyd George shot Niagara in order to save the bill market and prevent the wheels of commerce coming to a standstill, probably neither he nor his banking advisers could estimate within a hundred millions sterling the aggregate amount of the bills he was guaranteeing. Had he suspected that it might exceed £300,000,000 he might have hesitated. The promised guarantee was a leap in the dark, but the only alternative was a plunge into chaos. Whatever it may in the long run cost the

Treasury will be cheerfully paid, because a prolonged financial agony might have cost much more.

The readjustment of our international liabilities was the first step toward resumption of business. The most urgent of these were in the bill market, and a variety of important interests depended upon their being cleared up. Not only did the current volume of bills of exchange represent a huge amount of our commercial capital, but they were a vital factor in the movements of foreign exchange. Even after the Treasury guarantee had been given and the bills were being rapidly discounted by the Bank of England, the foreign exchanges were slow to turn in our favour. This was puzzling as well as disappointing to financiers who had counted on quick results, but we can now see that there were obstructive influences at work in various foreign centres.

It may be asked retrospectively why Government intervention took effect so much more slowly in Lombard Street than it did in other spheres. The war risks insurance scheme operated like a charm and brought the underwriters into line at once. But for this we have chiefly to thank the energy with which our armed cruisers swept the seas of German commerce destroyers. War rates would have automatically declined with the return of comparatively safe navigation, but doubtless the decline was accelerated by Government intervention. The taking over of the railways was another exceptional measure fully justified by results. In assuming control of all the wireless telegraph stations, vigilance and promptitude were again exhibited. But in this case the Post Office would deserve still greater credit if it had never allowed any private company to acquire the control over our long distance wireless installations of which it had to be instantly deprived when we found ourselves at war.

In reviewing the war measures adopted by the Government on behalf of commerce and finance, and judging them by their respective results, it may be observed—(1) that they were boldly and promptly taken; (2) that they completely succeeded in averting any serious panic;

(3) that they gave all classes of business time to recover from the first shock of the war; (4) that in most departments a gradual revival followed. *Per contra*, the revival was irregular and more marked in some directions than in others. It has throughout been more rapid on the commercial than on the financial side—a perfectly natural circumstance considering the magnitude and intricacy of the financial engagements open.

Whether the Chancellor of the Exchequer and his City advisers handled all these emergencies in the best possible way is a question for the future. It will doubtless be keenly discussed by later generations of critics. But it should not be the first and only question. One which ought to precede it is whether our financial machinery as a whole, beginning with the Treasury itself, the Bank of England, and the Stock Exchange, might not have been better fitted to bear the shock of such a catastrophe. Were there not difficulties and dangers encountered which might have been foreseen and which could have been more easily checked beforehand than in the throes of the crisis?

Ministers themselves were highly satisfied with the success of their emergency measures, and cheerfully accepted the enthusiastic tributes that were paid to their skill in steering the nation through an unprecedented sea of troubles. At the Guidhall banquet on Lord Mayor's Day the Prime Minister made excellent play on this agreeable topic. His speech formed a graphic and concise history of the first three months of the war crisis. As a fit summary of momentous events in the financial world it will hereafter rank with his elaborate review of the whole situation delivered in the House of Commons on March 1, 1915.

"Let me just for a minute recall the threatening aspect of the financial world in the last week of July. The stock markets were demoralised; the Stock Exchange had closed its doors; bankers were apprehensive of a wholesale withdrawal of deposits, and the great accepting houses in the City of London had to face the prospect of being unable to obtain from abroad the remittances which they required to

meet their daily maturing obligations in respect of bills of exchange.

"We were confronted at that moment with the double risk—the risk of a shortage of internal and of a general discredit of international currency. By the end of the first week in August, both these dangers had been coped with, first by the issue of currency notes, and second by providing for the re-acceptance of current bills of exchange. There followed the moratorium for all debts, with certain exceptions, which has since been extended.

"My Lord Mayor, these measures, sanctioned and approved as they were by Parliament, prevented the destruction of the machinery of commerce, but we proceeded to take the necessary steps to restore its working. Arrangements were come to with the Bank of England to discount the postponed bills, and that bank and the other great joint-stock banks were discounting bills.

"Provision was made to enable the acceptors of pre-moratorium bills to meet them when they became payable, and schemes, as you know, have since been devised for dealing both with the position of the Stock Exchange and of merchants and manufacturers who have foreign obligations.

"Now, what has been the result of the measures so taken by his Majesty's Government? I think it is a very satisfactory result. The foreign exchanges are working, in the case of most countries, quite satisfactorily. The gold reserves of the Bank of England, which were £40,000,000 on July 22, and which had fallen on August 7 to £27,000,000, now stand at the unprecedented figure of £69,500,000. The central gold reserve of the country, after three months of war, amounts to £80,000,000, almost exactly twice the amount at which it stood at the beginning of the crisis.

"The bank rate, which rose, as you know, to 10 per cent., has now come down to 5 per cent.—a figure, I think, not in excess of that at which it stood this time last year. Food prices have been kept at a fairly normal level, and though trade has been curtailed in some directions, unemployment has been rather below than above the average."

The only exception that may be taken to the Guildhall panegyric by Mr. Asquith on himself and his colleagues, is that it almost entirely ignored the principal factor in the relief measures so promptly and successfully carried

out. The Bank of England was the mainspring of them all. Without it there could have been no heroic bill discounting, no conjuring with Treasury guarantees for all sorts of financial and commercial debtors. The Bank of England furnished the talisman, and the Chancellor of the Exchequer applied it. Not for the first time was it so used. It is an old story that Governments in difficulties are apt to make too free with the Bank. In an eighteenth-century pamphlet this truth is stated in a prophetic spirit which preserves its interest for us at the present day. The pamphleteer, a certain "William Howison, Esquire," wrote fully a century ago :

"During the existence of the Bank there has always been found to arise a tendency in the Ministry to draw as much aid from the Bank as possible, and rather to operate upon the established credit of the Bank with the public for aids and loans, than to come forward in their official capacity to the public with their wants of the day. Under the credit of the Bank the Ministry for the time appears to have had a strong desire to veil the present burdens of their measures from the eyes of the nation until they had committed the national honour for the discharge of the debts." [1]

The brilliant financial coups performed during the first stage of the war crisis should be studied from the above point of view. The Bank of England was the chief miracle-worker, and its weekly returns show how the thing was done. It was through the Bank that the 90 millions sterling of Treasury bills were fed out to the money market, and that the record 350 million loan was distributed among patriotic investors. The Bank of England is now in a fuller sense than ever before the pivot on which British finance revolves.

[1] *An Investigation into the Principles and Credit of the Circulation of Paper Money or Bank-notes in Great Britain*, by William Howison, Esq.

PART I

AN AVERTED PANIC

CHAPTER I

A WORLD-WIDE DEADLOCK

THE first shock of the great war of 1914 fell on the financial world, and naturally the chief brunt of it had to be borne by the City of London. It was the unfortunate centre on which all the world-wide alarms and urgent demands for help converged. It had to stand in the breach while other financial centres tried to rally round it. They all looked to it for a lead, and, literally speaking, it became responsible not merely for itself, but for the whole system of international finance.

This responsibility devolved on the City at a very inopportune time, and in circumstances of extraordinary difficulty. Apart altogether from the war, the monetary situation both in Europe and America had become critical. For several years trade had been booming, and prices had risen to dangerous heights. Credit operations of a colossal character had been launched into in various parts of the globe. A mania of public borrowing—national, provincial, and municipal—had run its course, and its sources of supply were drying up. A reaction from the over-exuberance of commerce and finance was setting in when outbursts of war and revolution intensified the monetary strain to breaking-point. High finance had already quite enough on hand when the Balkan Peninsula went ablaze, and Mexico plunged into another of its periodical revolutions.

When on top of all these troubles came the war, the Chancellor of the Exchequer and the heads of the banking community had to improvise precautionary measures against financial disorder and possible panic. A great variety of risks had to be anticipated and provided for. In a number of different spheres, prompt action had to

be taken in order to avert possible dangers. In certain cases this action had to go far beyond any existing precedent. The London Stock Exchange had never before been closed *sine die*. A moratorium, if not absolutely new, was a strange experience for British traders. A run on the great joint-stock banks by their hundreds of thousands of depositors had hitherto been deemed unthinkable. The fear of gold-hoarding had never before occurred to the most nervous banker.

When the Treasury and the London bankers found themselves suddenly confronted with this array of formidable risks, they could not fail to be rather staggered at first. They had to act so quickly and at such a number of different points that they could not have been expected to always act coolly. Where they erred at all, it was in attempting too much. Retrospective criticism, judging by results, may find some things that were overdone, but few, if any, that fell short of what the emergency demanded. It may, for example, be questioned if the alarm raised about the bill market was not somewhat exaggerated. Before the banks and bill brokers could be reassured as to its safety, three royal proclamations had to be issued, and three successive appeals had to be made to the Bank of England for exceptional help. So grave was the situation represented to be that the Governors of the Bank could not venture to act on their own responsibility. They asked for the guarantee of the Treasury, and it had to be given them.

When all these remedial measures were completed and brought into operation, we had a general moratorium running side by side with a special scheme for discounting pre-moratorium bills "without recourse." This scheme was at first understood to mean that the bills were to be taken off the hands of the holders unconditionally, that the drawer, acceptor, and endorsers were all to be released, and the whole risk of them to fall on the Treasury. But Mr. Lloyd George was not quite so quixotic as that. On the other hand, the wide terms in which the arrangement was officially announced, seem to have excited in

Lombard Street a mistaken idea that it was free to unload anything and everything on Threadneedle Street.

At first little attention was paid to the qualifying adjective "approved" bills. The Bank began by taking in everything that came along, but when it found the crowd of discounters growing daily it had to be more discriminating. Another reason has been suggested for the greater caution which it latterly exercised. Some of the clearing banks which might have been expected to strengthen the hands of the Bank of England in carrying out this bold and hazardous operation, the ultimate extent of which no one could foresee, are said to have done the reverse. Instead of continuing to discount pre-moratorium bills, and thus relieve the pressure on the Bank, they joined in the rush to the Bank and dumped their own bills upon it.

Such banks may plead the excuse that they felt it to be their duty to strengthen their cash reserves, but the practical effect of their extreme prudence is not to be overlooked. By discounting heaps of bills at scare rates of 5 and 5½ per cent. they accumulated funds at the Bank which they were soon glad to lend out at 2 per cent. or less. What they lost by this sort of banking, they had, of course, to make good elsewhere. As usual, their Stock Exchange and their trading customers had to pay for it: this time in 5 and 6 per cent. rates.

A few days' experience of the Treasury offer to guarantee Lombard Street *en bloc* proved it to be unduly lavish. The Bank of England had to impose a succession of belated checks on the inrush of pre-moratorium bills. First it limited the number to be received daily, and subjected them to more thorough scrutiny. Next it required the acceptors of maturing bills to take them up, leaving their claims on the Treasury to be afterwards arranged. But so many acceptors were unable to comply with this condition that the Bank had to grant another concession. It finally offered to advance to acceptors the necessary funds for meeting due bills, and the remainder of its relief to Lombard Street was given on that basis.

Thus in practice the relief scheme was shorn of the grandiloquent bravery with which it started. In the process it became much simpler and more workable. The Bank of England, by advancing to acceptors funds to meet bills as they became due, enabled the bills to be taken off the market. It also cleared the drawers and endorsers—in fact, everybody but the acceptors—of liability. The latter alone remained liable to the Bank, and only for a plain debt against which the bills are held as security. Moreover, this debt is not to be enforceable for a year.

At this point Lombard Street got down to something definite and durable. The rush of bill discounters to the Bank began to fall off. The clearing banks changed their tactics and resumed discounting. They even took in pre-moratorium bills at half the rates which they had paid a fortnight before for clearing out their own portfolios. What may be called the "bill of exchange scare" thus ran its course and died out. That it has ended happily it is yet too early to say. The final result will not be known until the end of the year's grace which the Bank of England is giving to borrowers who cannot meet their bills. Even then not much may be allowed to leak out respecting this remarkable operation—one of the strangest in financial history.

All we are likely to learn definitely is the sum total that the Treasury may have to pay under its guarantee. Valuable as many other details would be—the amount of bills discounted by the Bank of England, the proportion of foreign bills amongst them, the estimated total volume of bills current in Lombard Street when war broke out, and the principal classes of credit represented by them, Lombard Street may prefer to keep to itself. Even its own ideas as to the magnitude of the bill market may still be hazy. When the Bank of England began discounting without recourse, the most diverse estimates were formed as to how far it might have to go. If it could have foreseen what the Chancellor of the Exchequer told the House of Commons on November 27, namely, that £120,000,000 of bills had been sent in to it under the

Treasury guarantee, it might have felt rather nervous as to the result.

Among the grave features of the situation which had to be faced during these fateful days at the end of July 1914, not the least was the desperate condition of international finance. While the great military States were crushing each other in a suicidal war of armaments, the Balkan States were wasting their scanty resources in mutual destruction. Between the oppressive taxes levied in rich countries and the ruinous loans contracted by poor ones the fountains of national wealth were being rapidly drained. The amount of private capital diverted to public uses—chiefly unproductive uses—in the first decade of the present century throws into the shade all previous records. If it could be precisely ascertained it would be horrifying.

These preliminary facts need to be recalled for two reasons—first, to show that Europe was already on the verge of a financial crisis when the war broke out; second, as a warning that under the most favourable conditions we can expect, the financing of the war is to be a tremendous ordeal for all of the belligerents. Even in our own case the "silver bullet" in which the Chancellor of the Exchequer has so much faith is going to be a costly weapon both for ourselves and our children's children. We are only playing with it yet compared with the grim work in store for it hereafter. Already the prospect is sufficiently alarming.

Here we have to deal with the events which preceded the great war as influences affecting the money market of the day. Their effects on it, direct and indirect, were very varied. Some, but by no means the most important, were obvious enough. Others, and not the least important, are difficult to trace. Inflation and exhaustion were blended together in a peculiar way. Huge groups of speculative and semi-speculative securities had been worked up to artificial values, but they remained in comparatively few hands, and their holders had almost reached their last gasp when the war cloud burst over their heads. In this category must be included the great

issuing houses, international banks, and high financiers generally.

For such people 1914 had so far been a bad year. Masses of new credit creations—"scraps of paper," as the candid Herr Bethmann Hollweg would say—had been left in their safes. Some of them they had not even had a chance to offer to the public. In other cases they had only succeeded in foisting them on friendly underwriters. This deadlock was not only a misfortune in itself, but it crippled the regular operations of the international banks and finance houses. In Paris and Berlin as well as in London business continued to shrink day by day, and prices fell accordingly. The quondam market leaders became at last so powerless that they had to stand from under and let things slide. Not one in a dozen of them had his hands free to perform the first duty of a market leader—to support the market in an emergency.

In order to realise the overwhelming force of the shock which the sudden outbreak of a European war gave to the City, all these antecedent conditions must be taken into account. The chief of them may be thus summarised :

First, the enormous expansion which international trade had undergone in the preceding three or four years.

Second, the consequent great increase in banking operations, especially in the supply of bills of exchange and other instruments of credit.

Third, the immense development of national and other public borrowing during the same period.

Fourth, the flood of new enterprises started all over the world and the corresponding crowd of joint-stock companies to which they gave birth.

Fifth, the heavy losses which all classes of investors had sustained through mismanaged companies, defaulting States, wars, insurrections, market scares, and last, but not least, through penal taxation.

In a word, the machinery of the money market was very much out of gear before it received the *coup de grace* of the war. The Treasury, Threadneedle Street, Lom-

bard Street, the joint-stock banks, and the heads of the various commercial organisations realised at once the gravity of the crisis. It drew them together instinctively as no national peril had ever done before. Quietly and without any fuss they formed a financial Committee of Public Safety, and set to work to strengthen the weak points in the situation. Whatever criticism may hereafter be passed on their proceedings, ungrudging credit will always have to be given them for the promptitude and courage with which they stepped into the breach.

Fortunately, standing committees of banking, financial, and commercial experts were ready to hand, through whom the necessary consultations and arrangements could be at once begun. The Governors of the Bank of England, the Committee of the Clearing Banks, and the Exchange Committee of English and Foreign Bankers were all at the call of the Chancellor of the Exchequer. Two representatives of the Scottish banks, one a general manager and the other a London manager, also took part in the conferences. The banks, in fact, had it all their own way in the first stage of the crisis, and if, as was afterwards thought, they considered first their own safety, they were hardly to be blamed under the peculiar circumstances.

It must in fairness be said for them that their plight was the most urgent. The three chief classes of liabilities which had to be protected were:

1. The bills of exchange in circulation and maturing day by day.
2. The transactions pending in the Stock Exchange and other public markets.
3. The ordinary operations of domestic trade.

For obvious reasons bills had to be first safeguarded. In all civilised communities they have from time immemorial formed a special class of obligations. They are the most liquid kind of debt, the most easily transferred, and therefore the most useful to commerce. On the other hand, they are the most strictly enforceable, both as regards time and place. Ordinary debts may be disputed or staved off, but there can be no trifling with a bill of exchange

when it falls due. On the specified day and at the specified place the money must be there to meet it, otherwise legal proceedings most damaging to the defaulter's credit may immediately follow.

That is only one respect in which a bill of exchange ranks above all other commercial obligations. It is always a collective and not an individual debt. There must be at least two names upon it—the drawer's and the drawee's. But it may have a dozen more, as every man who endorses it becomes equally liable with the principals. In every walk of commercial life, from the humblest to the highest, the bill of exchange is a unique instrument of credit, to be protected from all risks and maintained in the highest possible efficiency. During the past half century it has advanced far beyond its original commercial rôle and developed into a powerful instrument of banking credit. This now greatly overshadows its older uses, and Lombard Street to-day has millions invested in so-called "bank bills" against thousands in trade bills.

This farthest-reaching and most many-sided crisis ever known requires to be looked at from various points of view. Every nation, even the smallest and most remote, had a special experience of its own, from which more or less valuable lessons are to be learned. In the financial as well as in the military struggle, there was a far-flung battle line. Next to London, the most important centre was New York. In certain respects it was the most important of all. Its neutrality gave it a free hand to use its immense resources and opportunities to the best advantage for itself. It had also the best means of protecting itself from the inevitable damage and disturbance which the war was bound to cause. But even New York was violently stunned and shaken by the Kaiser's thunderbolt.

An American banker, writing on the spot, thus describes the first effects of the sudden transition from a state of peace to a state of war:

"A few weeks ago men were buying and selling, lending and borrowing, contracting and planning, with little atten-

tion to national boundaries, when suddenly the entire co-operative system was disrupted. Raw materials were cut off from the factories accustomed to use them, factories from markets, food supplies from consumers, and millions of men were summoned from mutually helpful industries to face each other as mortal foes. An outburst of primitive passion in a remote corner of Europe wrecked the painfully-developed structure of modern civilisation."

This picture is, with one exception, as correct as it is graphic. But the suggestion in the last sentence that the Serajevo assassinations had been the sole cause of the war indicates a quite inadequate apprehension of the recent history of the Hohenzollerns and their war policy. The writer is on firmer ground and sees with a clearer eye when he proceeds to describe the position of Wall Street at the outbreak of the crisis. After showing how the Balkan War had previously weakened all the international stock markets, he says :

"American securities were sold with the others, and perhaps more freely, because there was a great market for them outside the zone of political alarm in the United States. The ability of this country to take its own stocks and bonds and pay for them acted as a safety-valve, relieving the pressure upon all the stock exchanges of the world. The floating supply of our securities in Europe was no doubt materially reduced during this period of nearly two years, and the market at home was brought down to a bedrock basis. If the European debacle had caught this country with credits extended and the stock market inflated the situation would have been much more serious than it is."

There is sound philosophy in that closing reflection. If Wall Street had been caught in one of its sky-rocketing moods, the explosion might have been howitzer-like in its violence and destructiveness. As it was, the war only aggravated a collapse which had been to a large extent prepared beforehand by anti-trusts, anti-banks, anti-railroads, and anti-everything legislation at Washington. In the opinion of some shrewd but cynical judges, it was a bit of a relief from domestic worries. The above writer's

idea of Wall Street having in the Balkan crisis acted as a safety-valve to all the other stock exchanges in the world is also admissible, though characteristically American. The safety-valve was right enough until it reached danger-point. Then it failed completely. The engineers, instead of recklessly sitting on the safety-valve, providently stopped the engines. They were only too glad to take their cue from London and shut down. In the circumstances this was undoubtedly the wisest course to take. Doctors tell us that when a man bursts a blood-vessel the best thing he can do is to faint. This gives his heart a rest and the doctors a chance to stop the loss of blood in time. The same principle holds good in financial physiology.

CHAPTER II

THE FOREIGN EXCHANGES BLOCKED

Of the many and various ramifications of the crisis the one most difficult to trace is the paralysis of the foreign exchanges. And if it be difficult to understand, how much more so to attempt to explain to the lay reader. The foreign exchanges are a special section of the financial world which the "cambists," as they were formerly called, have entirely to themselves. Its operations are the most complicated and perplexing of any. Simple exchanges between one country and another are the mere ABC of the business. When four or five different currencies have to be converted into each other a bit of science is required. And there are even higher problems than that to be solved off-hand in a foreign exchange office.

Years ago, before national moneys were simplified and brought into greater harmony with each other, the most intricate calculations were needed in arbitrating them. Old cambist text-books bristle with examples of equations, direct and "arbitrated" rates, circuitous exchanges, formulæ, and tables for metallic money. They give arbitrated rates between London and Paris through Amsterdam, Hamburg, Frankfort, and Leghorn, which were the then recognised monetary centres of Europe. Berlin was as yet only a Junker barracks at the north-east corner of Germany. It was hardly known either to international trade or finance. Amsterdam, Hamburg, and Frankfort were the financial capitals of the Continent. Through them remittances could be negotiated either way with Vienna, Leghorn, Genoa, Naples, Lisbon, and Madrid.

This circle-sailing style of foreign exchange still survives

though in a modified form. Triangular operations are quite as common as single ones, if not more so. A notable one was carried out in connection with the heavy gold shipments from New York to Paris in the early part of 1914. Nearly all that gold had to be settled for in London, the United States dollars being first converted into francs, and then the francs converted into sterling. It may be imagined what the effect of the crisis was on the world-wide network of exchange operations which were then in progress. With hardly a moment's warning an incalculable stream of bills, cheques, and cable transfers came to a dead stop. If it had been allowed to stand still, the speedy result might have been a catastrophe to eclipse everything of the kind in the world's history. Prompt intervention by the Treasury and the Bank of England averted it.

But the intervention was not an unmixed blessing. It was only a lesser evil, or, more correctly speaking, it did good and harm at the same time. This was an inevitable consequence due to the nature of the case, and one which no human skill could have avoided. In order to avert a terrible collapse, two opposite and contradictory remedies had to be applied concurrently. A moratorium had to be granted first to bills of exchange, and afterwards to general debts. This saved the bills of exchange then current and falling due day by day, but at the same time it gave a fatal blow to the creation of fresh bills. Sterling drafts—that is, drafts on London—were no longer good enough to pay for produce or merchandise in any part of the world. American exporters set the example of refusing to ship goods to Great Britain without money down at their own door. Even if they had been quite sure about their British consignee, they might have had their doubts about our ability to maintain our free market for gold which has been the pride of Lombard Street for so many generations.

Thus the effort to save the great mass of bills of exchange in circulation stopped the machinery by which new bills were being continually created and put on the market. London suddenly ceased to be the world's

clearing-house for goods, debts, securities, and remittances of all sorts. Not only were the two belligerent States, Germany and Austria, eliminated from the international circle, but everything in any way dependent on them was thrown out of gear. Germany in particular was so extensively mixed up with new international trade and finance that she had a finger in most of our exchange difficulties. She had been allowed to become such a powerful factor in Lombard Street—as in many other spheres which we should have kept to ourselves—that almost everywhere she had to be reckoned with. It might be going rather far to say that but for her there would have been no absolute deadlock, and consequently no need for a moratorium, but she ought to bear the largest share of responsibility for these desperate measures.

While the temporary discredit of sterling exchange and the loss of confidence abroad in our boasted free market for gold were the main causes of Lombard Street's paralysis, various secondary obstacles also came into operation. The sharp fall which took place in exchange rates—that is, in the values of foreign currencies compared with sterling—acted as a heavy penalty on remittances to London. Where, as in some instances, this amounted to 5 per cent., or even more, the foreign debtor had a plausible excuse for not remitting. When he happened to be a very honest man he paid the amount of the debt into a local bank to await the issue of the war and sent on the bank receipt to his British creditor. Many instances of this are said to have occurred in Russia, but so far none has been reported from Germany. The favourite German method of utilising British funds stranded in the Fatherland has been to invest them in Imperial war loans.

A further explanation of the paralysis of the foreign exchanges is of a more general character. All markets which admit of speculation have a tendency in prosperous times to outrun the volume of actually necessary business. For every *bona fide* trade transaction there may be two or three which are done simply because certain men are there to do them and have all the needful facilities for it. If they get a percentage out of them

they are satisfied. But in stranded markets of the sort that a financial crisis always leaves behind it, business is reduced to bedrock. There is neither means nor opportunities for fancy trading. Everything has to be done on a hard cash basis. This important alteration in market conditions curtails foreign exchange transactions almost as severely as it contracts the operations of the Stock Exchange.

Though this peculiar phenomenon almost invariably follows a financial crisis, its significance is as yet very imperfectly realised. A remarkable example of it occurred during the prolonged prostration of business after the Argentine crisis of 1890. Then the volume of bills passing through Lombard Street fell off tremendously, and exchange rates were for a long time quite nominal. It was not until the Kaffir boom of 1894–5 that markets regained their normal freedom and activity. Any observant person who lived through that crisis will now recognise the same features and incidents repeating themselves. Business stripped of its speculative fringes and stuffing shrinks into the lean and slippered pantaloon state. Outside of war contracts, there is in most markets barely enough of it to keep daily life going.

For thousands of City men it is now a vital question how long the foreign exchange deadlock is likely to last. Pessimists predict that it may outlast the war. Should it do so, we may then expect a sharp rebound. Hope and comfort are to be derived from the fact that the Franco-German war was closely followed by a violent boom, not in Germany only, but in France as well. The Finance Ministers of both countries described the year 1872 as one of unprecedented prosperity. Nor was the significance of this surprising sequel to the greatest war that Europe had so far known impaired by the crash of 1873 which sent the newborn plutocracy of Berlin sprawling again in the mud.

In reviewing the very tangled and perplexing evolution of the war crisis of 1914, the most difficult point to decide is how far it was within human control and how far beyond it. The primary disturbing forces had to run

their course and work themselves out in their own way. It was almost useless, and often, perhaps, harmful, to interfere with them. Only the secondary derangements could be artificially remedied, and even that took a long while. No human effort could restore Lombard Street all at once to its normal condition, but it was found possible to regulate the principal exchange rates sufficiently to serve immediate needs. So also with the stock market; though it could not be officially re-opened, a fair amount of business was carried on in the street—more, in fact, than was done under the Treasury regime after the House reopened.

The Special Committee which took in hand the foreign exchanges had first to deal with bills and cheques drawn on Great Britain in foreign currency and payable in this country. Market rates of exchange having disappeared, how and on what basis was payment to be made? The Committee, after full discussion, fixed provisional rates for the thirteen principal foreign currencies—Paris, Brussels, Berlin, Vienna, Amsterdam, Switzerland, Italy, Madrid, Stockholm, Lisbon, Petersburg, Canada, New York. These rates were to be subject to alteration by the Committee from time to time, notice being given by circular. As regards some of them, frequent alteration became necessary, and the most erratic of all was the New York rate. In the original list (August 8) it was set down at 49*d*., or 4*s*. 1*d*. to the dollar. This was the normal rate which had obtained almost up to the date of the crisis. But it proved much higher than could be maintained. The deadlock in New York, instead of easing, as it was expected to do, became worse and worse, consequently dollar values declined as compared with the pound sterling. By the end of September not more than 3*s*. 10*d*. could be got in London for a dollar, while in New York as much as $5 instead of $4.88 had to be paid for £1 sterling.

In this particular case, and the most important one they had to deal with, the Foreign Exchange Committee were not very fortunate. But they might console themselves with the reflection that even higher authorities

had little if any better luck. The British Treasury experts, the American bankers who got up the $100,000,000 gold pool, and the Washington Conference of British and American officials, were all baffled by the perversity of sterling exchange, which kept on rising when it should have been falling. The obvious explanation was that there was no real market to give the quoted prices any practical value. Day after day lists of exchange rates were published in London with a significant footnote appended—"Above rates are nominal." This was, however, in no way due to lack of either energy or courage on the part of the Foreign Exchange Committee. Six weeks' hard work gave it sufficient control of the situation that it ventured to reopen the bi-weekly bill market in the Royal Exchange. The first meeting was held on September 17, by which time the market had drifted a good long way from the provisional rates fixed on August 8. New York cables, for example, were now up to $4.99, and dollars in London down to 3*s.* 10*d.*

Though New York was the chief centre of interest, and sterling exchange absorbed the principal attention of the bill market, there were many interesting movements in other foreign currencies. Some of them rose in a significant way, while others had equally erratic declines. In the thirteen weeks from the fixing of the provisional rates on August 8 down to the end of October, Paris cheques rose from 25.10 to 25.20; Switzerland cheques from 25.10 to 25.30 to 25.50; Madrid from 26 to 26.50; and Stockholm from 18.35 to 18.90. On the other hand, the Amsterdam rate declined from 12.15 to 11.90; Italy from 26 to 25.80; and Lisbon from 43*d.* to 38*d.*

But these rises and declines have double meanings. In exchanging money between two countries, a rise on one side necessarily implies a corresponding fall on the other side, and an apparent rise may be an actual fall. Thus when Paris cheques are said to have advanced from 25.10 to 25.20, that is unfavourable to Paris as 10 cents more have to be paid for a pound sterling. But when the Amsterdam cheque declines from 12 florins 15 cents to 11 florins 90 cents, that is favourable to

Holland, as it costs so much less in florins and cents to purchase a pound sterling. Similarly, when the rate of exchange between New York and London rose from 4 dollars 88 cents (cables) to 5 dollars, it was very much against New York, as it meant that everybody who had debts to pay in London must give an additional 12 cents (6*d.*) for every pound sterling remitted. The result was that remittances practically ceased. Without declaring a moratorium, the Americans gave themselves the benefit of it. On the other hand, we declared a moratorium, but most of us paid our debts all the same.

Everywhere and always exchange rates have a peculiar interest for the intelligent trader, especially if he be a foreign trader. They are indices not merely to the commercial and financial relations of international markets, but also to the economic conditions of their respective countries. In war time their interest multiplies a hundredfold. They tell tales as to the financial strain being exercised in the various belligerent countries. They betray the secrets of neutral trade carried on with the enemy. Just now, when the British Government observes that Holland, Denmark, Sweden, and other near neighbours of Germany are greatly increasing their imports of various articles of prime necessity in war, it may not unreasonably suspect that part at least of the increase is finding its way across the German frontier. Or when bills of exchange with the original German names scratched out and Swiss or Danish names substituted come over here for collection, the London banks are quite entitled to disregard such clumsy changes of nationality in transit.

Dodges like these, however carefully watched and more or less successfully checked, may have sufficient weight to influence the course of the foreign exchanges. They may partially explain the rise that took place in the Swiss and the Swedish rates of exchange during the first three months of the war. But in Holland other influences must have been at work to account for the fall in Amsterdam rates during the same period. The provisional rate fixed by the London and Foreign Banks Committee on August 8 was 12 florins 15 cents for the pound ster-

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ling. At the end of October the pound sterling could command only 11 florins 90 cents. Obviously large payments were being made to Holland by some other country.

In the August list of provisional rates of exchanges there are two significant omissions—Berlin and Vienna. They were struck out as tabooed centres, but it did not follow that the German and Austrian exchanges were completely suspended. Austrian business was too small to be of much account, and German business appears to have been transferred to New York. Here we encounter another of the puzzling anomalies of foreign exchange. During the first few months of the war, Berlin rates (that is, marks in relation to dollars) were as conspicuously weak as sterling rates (pounds in relation to dollars) were conspicuously strong. On July 30, the last day that the New York Stock Exchange was open, Berlin cable transfers were nominally 95, and since then they have been low down in the eighties. Conjectures were, of course, rife as to the causes of this exceptional weakness. For a time they figured almost daily in Wall Street reports and in cables to London. But as time wore on and the mark continued to decline in value, the riddle solved itself. German purchases abroad of war materials at exorbitant prices called for constantly increasing remittances. In the first two months of 1915 the fall continued at an accelerating pace. It showed itself in all the neutral countries through which the penalised purchases had been made. Between the new year and the first week of March, the following changes took place :

RATES ON BERLIN

Country.	Beginning of January.	Beginning of March.	Fall.
			Per Cent.
Denmark . . .	Kr. 87.35 per mks. 100	83.35	4.57
Sweden . . .	Kr. 87.50 ,, ,,	83.75	4.28
Norway . . .	Kr. 87.25 ,, ,,	83.75	4.01
Holland . . .	Fl. 54.10 ,, ,,	51.10	5.54
New York . .	Cents 88.75 per mks. 4	81.75	7.88

But the adverse movement of the exchanges did not stop at Berlin. Germany's neutral neighbours—Scandinavia and Holland—began at this stage to realise that they had overreached themselves in supplying Germany so liberally. They had to replace a large part of the food-stuffs they had parted with by fresh purchases abroad. These soon turned their exchanges against them and took the gilt off their German profits. A good deal more came off after the complete blockade of Germany took effect.

Yet another anomaly developed in the foreign exchange department. Two of the three principal allies—Great Britain and France—have so far contrived to maintain their currencies at normal level. But Russia has not been equally fortunate. Notwithstanding the enormous gold reserves with which she entered into the war, and the greater part of which she still maintains, her exchange has gone against her to such an extent as to render it almost impracticable to remit money abroad. The par value of the rouble is $24\frac{1}{16}d.$, but for convenience £10 is taken as the unit. As exchange varies, the number of roubles payable for £10 rises or falls. On the eve of the war the rate was fairly steady at 94 to 95. It immediately jumped to over 100, and did not stop rising until it reached 120. But these wild quotations were merely nominal.

Three months of nervous fluctuation landed the rouble at the wide price of 108 buyers and 112 sellers. In Petrograd a still wider price (106–116) was quoted for cheques on London. As in the case of New York, the real reason for these extreme rates was lack of business. Russia was caught at an awkward moment by the sudden declaration of war. Her cereal crop was ready for harvesting, but both outlets for it—the Baltic and the Black Sea—were simultaneously closed. While her exports were thus shut off, she had to double and redouble her imports. Army supplies and munitions of war had to be hurried up, and there was only one port through which they could be quickly brought in. Archangel played a very important part in the opening campaign, though

not exactly the one which a famous popular legend assigned to it. If no Russian soldiers emerged from it, many shiploads of munitions entered by it.

This was the secret mission on which so many Atlantic liners were employed in the months of August and September, 1914. It could not fail also to have an enormous effect on Russian exchange. At a moderate estimate, the military supplies and munitions of war imported in these two eventful months must have run into millions sterling. With exports almost entirely cut off, they could only have been paid for with gold, and though it might have been easily spared from the immense gold reserve of the Imperial Bank, the Government alone had the power or the means of shipping it direct to London. In the ordinary course it would have gone to Berlin or Paris and been operated upon from there. This being no longer practicable, temporary arrangements had to be made to meet this part of the cost of Russia's preparations for the war. The Finance Minister at Petrograd, like our own Chancellor of the Exchequer, had only a Hobson's choice in the matter. It was Treasury bills or nothing, consequently Lombard Street was not surprised when, in October, a forthcoming issue of Russian Treasuries was announced.

The progress of the financial crisis abounds in curious coincidences and anomalies which penetrate even into the labyrinths of foreign exchange. It will strike financial readers as singular that the three countries which suffered the greatest derangement of their foreign business were not, as might have been expected, the two countries which had the largest volume of foreign obligations to take care of, namely, England and France. On the contrary, they were the three Powers which might have been thought best able to look after themselves. The United States, Germany, and Russia were understood to have made the best possible provision for meeting a war crisis. They possessed the largest stocks of gold, the greatest experts in the use of gold reserves, and the best means of handling them to advantage.

Ordinary reasoning would have assured us that these

three economically powerful countries would be best able to adapt themselves to the new situation created by the war. So far from this being so, all three of them were completely upset. The foreign exchanges were worst deranged at New York, Berlin, and Petrograd. As shown above, the pound sterling rose to $5 in New York, and to 12 roubles in Petrograd. German marks had, of course, no market in London, but in New York before the war was three months old they had depreciated 20 per cent. in relation to dollars. For a time all these three exchanges were literally blocked. Excessive as the quoted rates were, they were not working rates except for comparatively small sums. Americans or Russians stranded at the outbreak of the war had difficulty in obtaining small remittances to enable them to get home.

The Foreign Exchange Committee of the English and Foreign Banks issued on August 17 a second circular describing the situation as it then was at the principal exchange centres. Respecting Russia, it said: "It is absolutely impossible to forward bills to Russia for payment, consequently all bills should be retained here." Similar advice was given as to Belgium, Italy, and Switzerland. In a second category were placed countries where without positive danger there was sufficient risk of miscarriage to render it advisable to retain notarial copies. Holland, Scandinavia, Spain, Portugal, and Egypt were placed in this list. It was left to the discretion of the holders of bills how they should act in the case of France, the United States, and Canada. Their postal services were working all right, but other difficulties had to be considered. It is understood, said the circular, that "French banks refuse to attend to the collection of bills, sometimes even in Paris itself, and in all cases outside Paris, as often the staff is not adequate to cope with the bills sent for collection." A non-committal verdict is passed on the American and Canadian situations: "We understand," said the writer, "that bills can be forwarded without difficulty, and it is a matter of discretion whether certified copies be kept or not."

The above picture of the foreign exchange situation,

dated August 17, is a useful sequel to the bold scheme which had been launched five days earlier for discounting "without recourse" and under a Treasury guarantee against loss all "pre-moratorium" bills (that is, bills accepted previous to August 4, when the moratorium was commenced). It shows that there were many difficulties in the way which no moratorium or other artificial remedy could possibly reach. Discounting foreign bills was one thing and collecting them abroad was another. According to the Foreign Exchange Committee of the English and Foreign Banks, there were only two or three countries in the world to which at this stage of the crisis bills could be safely sent for collection. This was probably a greater bar to the recovery of the market than a temporary stoppage of discounting. Optimists who ignored it, or who may have been quite ignorant of its existence, were consequently much disappointed at the slow working of their heroic remedy.

Before the ink was dry on the Treasury guarantee scheme of bill discounting, a ministerial organ predicted that it would mean almost immediate relief to the congestion in the bill market. "It will," continued the ecstatic prophet, "free banks and discount houses for carrying on fresh business and for financing home trade. Business in bills has, since the moratorium, been practically at a standstill, for brokers have declined to make any quotations. Now we should imagine business will assume a more normal aspect."

Unfortunately these well-meaning, but premature optimists failed to grasp the situation fully. It was not, as they imagined, a mere question of congestion in Lombard Street. Behind that was the much more serious question of how the bills were to be met when they became due. The domestic portion of them might be provided for with the help of the Treasury and the Bank of England, but the foreign bills were bound to fare badly. In enemy countries they could not be collected at all, and in several neutral countries there were obstacles which even the British Treasury could not overcome. The heroic discounting operation had little effect on the ultimate fate

of the bills. In most cases it simply transferred them from one street in the City to another. Lombard Street, Leadenhall Street, and Bishopsgate emptied their bill cases into Threadneedle Street, and the most interesting result was that Threadneedle Street had an opportunity of scrutinising the contents, which no doubt it grimly enjoyed. How much it threw out is variously estimated, but small or great, it is satisfactory to know that there was some weeding. Regardless of Treasury guarantees, the foreign exchanges are taking their own time "to assume a normal aspect."

CHAPTER III

THE BILL MARKET PARALYSED

If ever there was a case of "shooting Niagara" financially, it was the bill-discounting scheme hastily arranged on the morning of the war between the Treasury, the banks, and the bill brokers. The obligation undertaken by the Bank of England to discount all approved bills that had been accepted before August 4 was admittedly a leap in the dark. The guarantee against loss given by the Treasury to the Bank was even more so. As to the amount of such bills there might be in circulation, there could only be the haziest idea among the negotiators themselves. The most experienced bill broker could only hazard a guess at it. The bankers, who seldom look beyond their own portfolios, would be even more at sea than the bill brokers. The Bank of England officials, who had hitherto done only a very select class of bill business, could not be expected to know much outside of their own preserves. To the Treasury the whole question was absolute Greek. It was literally in the hands of the banks and the bill brokers for facts as well as for advice. Apparently the nearest guess they could give as to the amount afloat was that it might be between 300 and 400 millions sterling. Which in the circumstances was not a bad guess, for the actual total turned out to be 350 millions.

Thus the first and most urgent of the long series of emergency measures called for by the war was also the largest. The outstanding liabilities with which the Stock Exchange closed were barely a fourth of those of Lombard Street, and they received proportionately less consideration. The contrast between the two cases in that respect was so marked as to provoke curiosity. Whether

it was due to popular prejudice against the Stock Exchange, or to lack of sympathy in Downing Street, or to inefficient defence by the Stock Exchange Committee, the dealers in stocks came off much worse than the dealers in bills. Though there is little to choose between the two kinds of paper either as regards safety or morality, the bill of exchange is venerated as one of the talismans of commerce, while the share certificate is viewed with suspicion as a gambling counter. It is forgotten that there may be, and often is, more realisable value behind the share certificate than behind the bill of exchange.

In the first week of the war, many people, even in the City, were greatly puzzled by the special anxiety of the Treasury and the banks regarding bills of exchange. It has been often asked why they were more concerned about them than about any other maturing liabilities. To such questions there are several conclusive answers. The obligations attaching to a bill of exchange are more strict, and in a sense more sacred, than those of ordinary commercial debts. That distinction is plainly indicated in its legal definition, namely:

"an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money to or to the order of a specified person, or to bearer."

In normal circumstances a bill of exchange is the most efficient form of credit known to modern commerce. International banking has elevated it into a substitute for money. In London fine bills pass from hand to hand almost as freely as Bank of England notes. The reader can imagine for himself what the effect would be of a sudden paralysis of Bank of England notes. If they were so discredited that nobody would accept them, business would become impossible. In a minor degree it would be blocked by the discrediting of bills of exchange. The slightest doubt as to their being met at maturity would be fatal to their free circulation. No one would discount them or advance money on them. The holder

would have to keep them until they matured and take the risk of their not being paid.

While he was sitting on them, the money they represented would be locked up, and he himself might be condemned to idleness. His hands might be tied, so that he could not enter into any fresh business. When hundreds of bill acceptors, endorsers, and discounters are in that dilemma, there must be a general deadlock. When unknown millions of money are needed to relieve the block, private capital may be unequal to the task. In the recent crisis it was confessedly unequal from the start. The greatest banks and discount companies in the world had overloaded themselves with this particular kind of paper. They had counted on funds coming in day by day to meet their bills as they matured. When one foreign country after another stopped remitting, they could not wait indefinitely for supplies. They had not sufficient margin of capital to enable them to do so. If a general default had happened, the bill market would have been not merely paralysed, but shattered, and it is needless to anticipate what dire consequences must have followed.

In a sense the superior quality of these bills of exchange was a disadvantage to them at the beginning of the crisis. To be entitled to circulate from hand to hand like quasi money, they had to satisfy a high standard of credit and to comply with very strict regulations. It is an old rule of the Bank of England to take only "two name" bills, and both names must be English. But at this juncture, the principal difficulty was with foreign bills, so any effective remedy would have to begin with important concessions from the Bank as well as from the Treasury.

In endeavouring to trace the devious course of the Lombard Street crisis, three facts have to be kept clearly in mind—first, that a document very complex in itself had to be subjected to a variety of intricate and exceptional arrangements; second, that these arrangements involved a wide departure from the banking practice hitherto understood and followed in the City; third, that

the Bank of England not only joined in this departure, but assumed a large share of responsibility for it, and provided special facilities for carrying it out. That a bank which for centuries had discounted nothing but bills with two English names should all of a sudden take to discounting indiscriminately "without recourse" was a change indeed.

Hundreds of bills get into Lombard Street nowadays with a dozen names on them, and not one of them English. And each name may stand for a separate interest. The drawer, the drawee, the acceptor, the payee, and the indorser are all individually liable for payment, but they are not by any means all in the same boat. Some puzzling examples of this soon came to light in the special discounting operations of the Bank of England under the moratorium. If a discounted bill was taken up when due, either by the acceptor, the drawer, or an indorser, that released all the parties as far as the Bank of England was concerned. They might still have rights of recourse among themselves, but the Bank of England and the Treasury had no more to do with them. If, on the other hand, the bill were re-accepted for a further period, the holder's liability ceased while that of the other parties remained. As, generally speaking, joint-stock banks, discount companies, and bill brokers held the bills, they benefited more than the drawers or indorsers, for whose relief the Treasury guarantee had been originally intended.

Should there be a considerable deficit to make good to the Bank of England, it will introduce into financial history a new kind of war tax. Considering its novelty, the tax-payers will be entitled to receive more than the usual scraps of official information regarding it. A detailed account of the operation of the scheme and its results would form a most interesting chapter in our banking history. Several previous attempts have been made at a census of the bill market, notably those of Mr. Newmarch and Sir Inglis Palgrave, but they were personal inquiries, limited as to the quantity and variety of their materials. The conclusions they arrived at

cannot, therefore, be accepted as more than approximately accurate.

But the Newmarch inquiry has permanent historical interest in as far as it illustrates very clearly the position of bills of exchange in the banking system of that day. It opened with an account of the country banks whose business divided itself into local and external. The local part consisted in satisfying the demands of customers for advances and discounts. The external part had for its object "aiding the distribution of ready capital over the country, carrying such capital from the districts where it abounds, or rather where it is in excess of the local demands, to districts where the local demand for ready capital exceeds the local supply." Mr. Newmarch proceeded to show how this process of distributing capital over the country was carried on mainly by means of bills of exchange, and that it had led to the creation of a special market for such bills in London.

> "There are in London certain large dealers in money called bill brokers, who act as bankers of deposit for all the country bankers and for most of the London regular bankers; who also receive on deposit the floating funds of insurance companies, and generally the funds of persons having the command of considerable amounts of ready capital or, to use the incorrect phraseology of the day, of large amounts of ready money. These bill brokers are also in constant communication with the merchants whose bills they discount and whose legitimate wants it is their business in a great measure to supply."

As to the *modus operandi*, let us assume that a banker, say at Lincoln, has a cross trade in bills, some of his customers bringing in bills for discount and others buying bills to use for remittances, &c. It would be an easy and profitable operation if he could reissue to his bill buyers the bills he had taken from local drawers, but that is liable to two insuperable objections. It would damage his credit, and at the same time offend the bill drawers by making public their private affairs. The London bill broker delivers him from this dilemma by dis-

counting his local bills when he wants to realise on them, or when he has surplus funds to utilise, by selling him bills from some other part of the country. Thus Lincoln bills may on occasion be transferred to Lancashire, and Lancashire bills may be substituted for them at Lincoln. The bill broker in London acts as distributing agent for the country at large.

But rediscounting and kindred operations then coming into vogue in Lombard Street were not always admitted to be sound banking. M'Culloch, a leading economic authority of the day, took a much stricter view of them than Newmarch did. But the latter, much as he admired the intricate machinery of Lombard Street, and the ingenuity with which it made bricks without straw, also admitted the possibility of abuses. Of all its peculiar qualities, the one he praised most—its secrecy—has survived down to our own time, though it is not so much appreciated nowadays as it used to be. Technical skill and professional secrecy are not a healthy combination. But in Mr. Newmarch's day it was the proper thing in banking, and his eulogy of the bill market is quite in the spirit of the age :

"The progress of time and the interests of numerous classes of persons have conspired to import a high degree of ingenuity and delicacy to the whole economy of the bill circulation. There is, for instance, a very nice apportionment of different kinds of discount business to different houses. A very efficient system is in operation by means of which the indorsement of bills from merchants to brokers and from brokers to bankers, and *vice versa*, is dispensed with. The object of this system is to keep as secret as possible the uses to which the bill may have been applied as a security for money lent or borrowed. It would be erroneous therefore to suppose that the extent to which a bill of exchange may have circulated is always accurately indicated by the number of indorsements upon it. There is a very complete system of correspondence between the merchants and manufacturers in the manufacturing and commercial towns where bills of exchange are chiefly created, and the London money market ; and, lastly, the plan of rediscounting in London a certain

portion of the bills discounted locally pursued by some of the provincial banks is carried out with great skill and circumspection by all the parties concerned."

The revolutionary changes which have taken place in English banking since the above was written may have thrown much of it out of date. Country banks have been swallowed up by joint-stock rivals. The old-fashioned bill broker is disappearing from Lombard Street. The "small bill," which formed the backbone of the inland bill business, has been largely superseded by cheques. Streams of foreign bills render it more difficult than ever to gauge the state of the market at a given date. There is thus all the greater reason to turn to good account the large amount of information which must have been collected in the course of working out the Treasury guarantee scheme. Never before has there been such an excellent opportunity of obtaining authentic data as to the scope of the bill market and its ramifications. Such data should be doubly useful—first, as a means of comparison with the previous inquiries already referred to, and, second, as a starting-point from which the future growth of the bill market may be measured.

The modern history of Lombard Street may be said to commence with a private investigation which arose out of the Select Committee on Banks of Issue which sat in 1840, and paved the way for the Bank Act of 1844. Mr. Leatham, a banker at Wakefield, addressed to the Chairman of the Committee, Mr., afterwards Sir Charles Wood, a series of letters on the currency which were afterwards published in a pamphlet. In 1841 he tabulated the results of his calculations on a broad sheet, but in the following year he died, thereby cutting short what might have become an increasingly valuable inquiry.

A few years later another banker, this time a City one, Mr. William Newmarch, took up the subject, and treated it very systematically as well as comprehensively. Mr. Leatham's figures extended from 1832 to 1839, but Mr.

Newmarch went a few years farther back, and began in 1828. From there he made continuous tables down to 1847—a period of twenty years. Thus they extended from the rise of joint-stock banking in London to the early years of the Bank Act. The voluminous title of the paper in which they were submitted to the Royal Statistical Society in April and May 1850 sufficiently indicates the wide scope of the inquiry: "An attempt to ascertain the magnitude and fluctuations of the amount of bills of exchange (inland and foreign) in circulation at one time in Great Britain, in England, in Scotland, in Lancashire, and in Cheshire respectively during each of the twenty years 1828–1847, both inclusive, and also embracing in the inquiry bills drawn upon foreign countries."

According to Mr. Leatham's estimates, the volumes of inland and foreign bills circulating at one time in the United Kingdom had in the eight years, 1832–1840, a range of from 87 to 134 millions sterling. The minimum was £87,204,000 in the October quarter of 1832, and the maximum £134,003,000 in the same quarter of 1836. This great bulge may have had something to do with the American boom which burst so disastrously in the following year. Apparently about a third of the bills were foreign and two-thirds inland. Mr. Newmarch's estimates for the same years were 10 to 15 millions sterling higher than Mr. Leatham's. For the three important years 1843–46—the period when the Bank Act was in the making—he worked out an average bill circulation of 116 millions sterling. The inland bills he distributed as follows among various divisions of the United Kingdom:

Scotland	£18,000,000
Lancashire	12,000,000
The rest of England	70,000,000
	100,000,000
Foreign Bills	16,000,000
	£116,000,000

The corresponding resources of the money market he estimated at £140,000,000, made up thus:

London Bankers	£64,000,000
Bank of England	36,000,000
Insurance and other Companies . .	10,000,000
Country Funds	30,000,000
	£140,000,000

In a general summary subdivided into four-year periods, Mr. Newmarch exhibited the growth of the inland and foreign bill circulation as follows: 1828–31, £91,985,000; 1832–35, £91,540,000; 1836–38, £116,016,000; 1839–42, £125,693,000; 1843–46, £120,857,000; 1847, £132,021,000. His estimate of the total amount in 1850, when his inquiry ended, was between £180,000,000 and £200,000,000.

At this point the investigation was taken up after the lapse of nearly a quarter of a century by Sir Inglis Palgrave, another practical banker. His census of the bills in circulation in Great Britain started from 1856, and was carried down to 1871. He made separate estimates of inland and foreign based on the scale of stamp duty then in force. In order to obtain a clue to the proportions of large, small, and medium-sized bills, he personally collected about 1400, and had them classified according to their amounts. In Group I—bills up to £50, there were 595, aggregating £14.138, and giving an average of £23, 16*s*. each. Group II—bills from £50 up to £300, contained 317, with an aggregate of £45,241, and an average of £142, 14*s*. Group III—bills over £300, numbered 488, and their total amount was £588,657, their average £1206, 6*s*.

The next step was to classify the stamps on the several groups. In Group I they ranged from 1*d*. to 6*d*, Group II from 9*d*. to 3*s*., and Group III from 4*s*. to over £2. Penny to sixpenny stamps were assumed to represent an average amount of £23, 10*s*., those from 9*d*. to 3*s*. an average of £142, 14*s*., and all above 3*s*. an average of £1206, 6*s*. Applying this formula to the official returns of stamp duties, an estimate was obtained of the number and value

of the inland bills created annually. From the average usance of the 1400 bills inspected (2.8 months for bills under £50, 3.5 months for the £50 to £300 group, and 4 months for those over £300), an idea could be formed of the total bill circulation at a given date. A few examples of the results arrived at by Mr. Palgrave may be useful in future discussions of a kindred nature :

INLAND BILLS, 1856–57 TO 1870–71

	Estimated Annual Aggregate.	Average Circulation.
1856–57 . .	£498,520,000	£138,400,000
1863–64 . .	598,080,000	166,200,000
1864–65 . .	676,474,000	211,590,000

Traces of the boom which started in the early sixties and collapsed in the Overend Gurney panic of 1866, are quite visible there. While it took seven years to effect the increase of 100 millions shown in the first of these two periods the next 78 millions was added in a single year. But this proved to be a high-water mark. The output of inland bills receded rapidly after the Overend Gurney crisis until in 1868–69 it reached a low-water mark of 602 millions. In 1870–71 the Franco-German war gave it another upward turn, that year's aggregate having been estimated at 677 millions. The average amounts in circulation at a given date varied of course with the annual outputs. From the 211 millions of 1864–65 they fell to 186 millions in 1869–70, and next year they sprang up again to the record level of 211 millions.

Mr. Palgrave worked out similar calculations for foreign bills based on the foreign stamps issued during the same twelve years—1860–71 inclusive. They did not fall much short of the inland bills to begin with, while their growth appears to have been decidedly faster. The estimated total of 1859–60 was 349 millions, and a couple of years later it was still only 374 millions, but in 1863–64 we come on signs of violent expansion. In that year a sudden jump took place to 485 millions. which was followed by another 92 millions rise in 1864–

1865. This, however, was another high-water mark, the 577 millions of that year not having been reached again until 1870–71—the beginning of the Franco-German war boom. It was then exceeded by 16 millions, and the total at which Mr. Palgrave closed his investigations of our foreign bill issues was £587,100,000 a year. Two-thirds of that amount he estimated to be bills drawn on London, and representing debts from England to foreign countries. The bills drawn by London on foreign countries were relatively small—about 50 to 60 millions sterling a year.

Though no systematic continuation of the inquiry from 1871 onward has yet been attempted, casual sidelights have at various times been thrown on the subject. In 1903 Sir Inglis Palgrave made a passing reference to it in his *Bank Rate and the Money Market*, but it was merely intended to show what a small percentage of the bills discounted pass through the Bank of England. Between 1866 and 1875 the discounts of the Bank only once rose to 16 millions, and that was during the Overend Gurney crisis. Against that has to be set the fact that in 1875 they fell on one occasion to two millions. The contrast between these minute totals and the huge discount operations which the Bank boldly undertook in the war crisis of 1914 afford a good measure of the growth of the money market in the interval.

According to Sir Inglis Palgrave, the amount of the bills in circulation in 1873, including foreign bills, was estimated at from £300,000,000 to £350,000,000. Writing in 1902 he said:

"The total now in circulation probably hardly exceeds, if it even reaches, the smaller of these figures. Mr. Newmarch's estimate in 1851 was that the corresponding amounts of bills in circulation then were from 180 to 200 millions. During the twenty years from 1850 to 1870, they had largely increased, but it is not believed that the amount of bills now in circulation has kept up at all in proportion to the increase in business generally." [1]

[1] *Bank Rate and the Money Market*, p. 66.

It is hardly to the credit of the present generation of bankers that the valuable work begun by Mr. Newmarch fully sixty years ago and continued by Sir Inglis Palgrave twenty years later should have been allowed to fall completely out of date. Apart from the bill market, it was of great service to banking generally. Mr. Newmarch's inquiry took a very wide sweep, and Sir Inglis Palgrave's was even more comprehensive. It would be useful as well as interesting to ascertain how they compare with existing conditions. The £120,000,000 of bills discounted by the Bank of England under the guarantee of the Treasury is a positive item to start with, and the discussion likely to arise out of that operation should furnish us with a good many more.

But the first condition of thorough and effective inquiry is a relaxation of the severe reticence which characterises most of our banking returns. In the past half-century many banking reforms have taken place, many ancient traditions have gone overboard, and banking methods generally have been modernised. But there still lingers in Lombard Street an atmosphere of secrecy which should be needless for *bona fide* bills, and in the case of other bills is mischievous.

Secrecy is no more necessary to London banks than it is to the large foreign banks, which, working alongside of them, can get along very well without it. It is in no way essential to good banking any more than it is to good railroading. In short, it is a tradition which survives only because it has never been frankly challenged. The meagre accounts issued of the London banks belong to a long vanished past when they were all young and nervous and mortally jealous of each other. Seventy years ago their meagreness was excusable, if foolish; to-day it is neither excusable nor intelligible. If it be more objectionable in one direction than another, it is in relation to bills of exchange. On other matters—gold reserves, note circulation, bank advances, discounts, &c.—a certain amount of imperfect information can be hunted up by the diligent inquirer, but the bill market is a gaseous region which supplies only spectral statistics.

For this tantalising and unfortunate condition no one is particularly to blame. Lombard Street may not be altogether dissatisfied with it or very anxious to mend it, but even if it would, its power may be questioned. The only constituted authority that might undertake a fresh inquiry like that of Mr. Newmarch in 1850 is the Committee of the London Clearing House. Bills as well as cheques go through the clearing—in fact, a due bill is treated as a cheque. It might with considerable labour be possible to distinguish bills from cheques, but the result would be very incomplete as well as misleading. A variety of untraceable incidents might confuse it. For instance, many bills are paid by cheque, and do not go through the clearing. They would consequently be counted as cheques instead of bills. Again, a large class of trade bills taken by joint-stock banks from their customers never get into circulation at all. Once more, there are many provincial bills which do not come up to London; the provincial banks hold them till maturity.

But though the idea of a comprehensive census of the bills in circulation seems hopeless, partial estimates worth having might be made. What matters is not so much the total volume of the bills as the amounts held in particular quarters. Of these the most important is the London banks. There is no difficulty whatever in the way of their publishing in their half-yearly balance sheets the exact amounts of their bill cases, distinguishing inland and foreign bills. The discount companies and the joint-stock bill brokers could do the same. From the larger firms of private bill brokers similar figures might be obtained in confidence. Thus the residuum of unreachable holdings might be reduced to a comparatively small point.

Without being either exhaustive or absolutely correct, these returns of inland and foreign bill holdings in London might be of great service, in the first instance, to the banks themselves, and secondly to the public. They would furnish a basis for comparing the fluctuations in the volume of bills held in London from year to year. They would throw much needed light on the current condi-

tions of commerce and finance. They would serve as a barometer of the weather in Lombard Street, indicating the approach of storms and giving timely warning to both bankers and traders to prepare for them. The war crisis emphasized and brought home to us the danger of carrying on huge financial operations in a state of statistical twilight.

CHAPTER IV

THE STOCK EXCHANGES CLOSED

The average newspaper reader is probably of opinion that the Stock Exchange was the least successful of our financial institutions in bearing the war strain. The fact of its having been suddenly closed several days before war was actually declared, while the bill market, with the help of the Treasury and the Bank of England, professed to carry on business as usual, would seem to warrant such an inference. The prolonged interregnum which followed, with its emergency regulations and special settlements, might tend to confirm it. The severity of the restrictions under which the House was at last allowed to reopen could leave no doubt on the subject.

The Stock Exchange was made the scapegoat of more powerful and higher-placed offenders. It had sins enough of its own to answer for, doubtless, but the worst of them affected a small minority of its members. Of its five thousand members, 90 per cent. were either brokers with a small circle of clients or jobbers doing a moderate amount of business, and keeping within their means. The other 10 per cent. was made up of plungers, promoters, market riggers, coolie brokers, and touts of various kinds for outside houses. It was in this small but influential crowd that the danger arose which frightened the Committee into closing the House at five minutes' notice. After hours on July 30 forty large firms are said to have notified the Stock Exchange Committee that if the House reopened they would have to "hammer" themselves. The largest of them were in the international market, and had incurred heavy liabilities on behalf of foreign firms

who could not or would not remit. Others were option dealers who had been badly caught in the frightful slump in prices precipitated by the war scare. Others had been financing speculative railways, harbour works, mines, &c. A select few were money brokers, who had borrowed millions from the banks and discount companies to relend them to members of the House with little or no margin.

Forty in five thousand is not a great proportion numerically, but it represented a large proportion of the total liabilities of the Stock Exchange. If these were, as estimated last September, about 70 or 80 millions sterling, the forty firms who threatened to hammer themselves may have been responsible for 20 or 30 millions. That they would have pulled down many smaller firms along with them there can be no doubt, but a great majority of solvent members would have remained. The survivors could quite well have kept the Stock Exchange open and averted the disastrous break in its historical continuity, to say nothing of the deadly blow dealt to its credit. Therefore it is open to question if the Stock Exchange Committee chose the lesser evil in deciding to close in a panic.

But it was not the Stock Exchange alone they had to consider. The banks, discount companies, and other outside money-lenders had much more at stake on their decision than their own members had. The recoil on the banks of a Stock Exchange panic would have been something too dreadful to contemplate. The direct loss on their loans would have been a small part of the calamity. The consequent depreciation of their own investments might have been a considerably larger item. Their Stock Exchange debtors were in similar relation to them that Sheridan held to his creditors. When asked if his debts never caused him any sleepless nights, he affected astonishment at the question, and answered, "Why should they? It is my creditors who should have the sleepless nights."

If the worst had come to the worst on the Stock Exchange last July it is the banks and other outside money-

lenders who would have had the sleepless nights. This is such a very evident fact that we may safely credit it with considerable influence on the situation. How much pressure the banks put on the Stock Exchange Committee, or how they exerted it, no outsider knows, but that it was in favour of immediate closing may be taken for granted. The action of the Treasury is more difficult to surmise. Several versions of it got into circulation during the crisis. One was that the closing was an unpleasant surprise for the Treasury authorities, and that they strongly resented not having been consulted about it beforehand. But common-sense declines to believe that so momentous a step could ever have been taken by the Stock Exchange Committee at their own risk. The banks, anyhow, must have been consulted, and as the Treasury was at the time in close touch with the banks, it, too, must have known beforehand.

The repressive and restrictive policy afterwards pursued by the Treasury toward the Stock Exchange shows that it was officially considered a centre of danger. Two fixed ideas took possession of Downing Street and inspired most of its subsequent proceedings. One of these was fear of wholesale dumping of alien enemy securities on this market, and the other was a hallucination that the Stock Exchange lives chiefly on bear selling. Most of the emergency regulations issued during the interregnum were obviously inspired by these two sentiments. They were the chief motives of the long delay in reopening the House, as well as of the restrictions under which it was at length permitted to resume business. Whatever substance there may be in the foreign dumping argument—and as to that great diversity of opinion has all along prevailed—bear selling was a mere bogey. The bears had done their selling in the boom which preceded the war crisis, and when the crisis came they were buyers of stock, not sellers. In the last week before the House closed they were the best supporters of the market. But a certain class of political moralists appear to think that bears always sell, and never buy, just as bulls are supposed by innocent people to always buy and never sell. Check-

ing bear sales after the end of July was trying to dam a dry stream.

There are four distinct issues pending between the members of the London Stock Exchange and the various authorities, domestic and external, who undertook to steer it through the financial crisis. The first is, Who was chiefly responsible for its having to be closed in such a hurry? Secondly, Were the emergency regulations and restrictions launched during the interregnum not somewhat overdone? Third, Was the closing not maintained longer than was really necessary? and fourth, Would it not have been perfectly safe to resume business with fewer Treasury vetos and prohibitions? Admitting that restrictions were necessary, two further questions arise—Was the Stock Exchange Committee not capable of providing them? and, May they not have caused more direct loss to the Stock Exchange than they have saved to the country? Not only was Stock Exchange business paralysed for a period of five months, but it was only allowed to resume in a gagged and shackled condition.

Worst of all, irreparable damage was done to the prestige of the institution. The London Stock Exchange ceased to be the widest and freest stock market in the world, though Lombard Street continued to be the widest and freest money market. And all its provincial auxiliaries suffered along with it. The Liverpool, Manchester, Glasgow, Edinburgh, Dublin, and other Stock Exchanges had to shut down along with Capel Court. But they did not drive their members out into the street and deprive them of the shelter from the weather for which they had paid heavily in advance. The Manchester Committee very sensibly opened a side door for a couple of hours daily, so that members could meet each other in comfort, discuss the situation, compare prices, attend to their correspondence, and in various ways minimise the labour of transacting such unofficial business as they had to do. By this reasonable concession Manchester brokers were spared much of the work and worry of running round from office to office and from telephone to telephone

which their London confreres had to endure. They were also able to render better service to their clients, as they met buyers and sellers in the same room, instead of having to hunt them up outside. In this way they got closer prices, and were able to put their business through more expeditiously than was possible in Throgmorton Street.

In short, the provincial exchanges faced the crisis more boldly and wisely than the metropolitan one was allowed to do. They also offered a stronger resistance to the encroachments of the Treasury. Consequently they got through the interregnum with a much smaller amount of friction and protest than took place in London. But their views on the new policy of State interference and restriction were none the less strenuous. On this subject all were agreed, and the Treasury authorities may hereafter find it no easy task to defend themselves against the criticism which they have so abundantly provoked in all the Stock Exchanges.

One of the most controversial questions which the financial crisis of 1914 is likely to leave behind it is the marked contrast between the treatment which the bill market received from the banking and the Treasury magnates and that which fell to the stock markets. The latter could only have been justified on the assumption that the stock markets were generally insolvent. But of that there was no evidence forthcoming. The only known insolvency was that of the forty big firms who threatened to hammer themselves. Setting them aside as a special problem for the banks who had financed them, at least three-fourths of the ordinary members of the House were able to hold on as long as they got fair play. Many of them had a narrow shave at the 18th November settlement. Having scraped through that, they might have thought themselves entitled to a rest from official restrictions, to enable them to pull themselves together again and make a fresh start. It was hardly a time to handicap them with fresh gags and fetters.

From public opinion, as well as from official authority,

the Stock Exchanges, both provincial and metropolitan, received scant consideration during the crisis. Their critics altogether forgot—if, indeed, they ever knew—the hard times they had been passing through before the war crisis overwhelmed them. For nearly two years—that is, from the outbreak of the original Balkan war in October 1912—they had been contending with an almost continuous fall in prices. Farther on will be found a series of tables indicating the extent of these declines in the principal groups of stocks. Gilt-edged investments, second- and third-rate securities, down to the rankest gambles all exhibit tremendous shrinkage.

This two-year decline ended in a violent slump during the last few days that the Stock Exchange remained open. The 387 representative securities which the *Banker's Magazine* has selected for its index of market fluctuations lost in the ten days between the 20th and the 30th July, no less than £188,000,000. To such a calamity some sympathy could hardly be denied even by the most pharisaic censor of the Stock Exchange. A confidential organ of the Cabinet, the *Westminster Gazette*, admitted its appalling magnitude. In its issue of August 28, 1914, commenting on the *Banker's Magazine* figures, it said :

"The enormous depreciation which occurred in prices of Stock Exchange securities during the last few days of July is shown in the usual statistics published by the *Banker's Magazine*. Owing to the closing of the Stock Exchange, the movement for ten days only is given, the previous figures having been made up to July 20th. From the latter date to the 30th there was a decline in the 387 representative securities dealt with of no less than 188 millions. In other words, the downward movement for the period of ten days exceeded any previous decline which had occurred even in the space of a month. That is saying a great deal, bearing in mind the many occasions on which very heavy falls had to be recorded. While the British funds showed a loss of forty-four millions, and Foreign Government securities one of forty-seven millions, the percentage of loss was greatest in the Mining departments.

With such a fall and the possibility of further slumps, the difficulty in arranging for the reopening of the Stock Exchange can be understood."

The actual condition of the stock market at the outset of the war has such an important bearing on subsequent developments that the price movements of the preceding two years deserve serious study. Representative groups of them are consequently shown in the subjoined tables.

BRITISH FUNDS, 1904-14

	Per Cent.	Highest 1904.	Highest 1912.	July 30, 1914.
Consols	$2\frac{1}{2}$	$91\frac{3}{8}$	$79\frac{3}{16}$	$69\frac{1}{2}$
Irish Land Stock	$2\frac{3}{4}$	$93\frac{7}{16}$	$79\frac{1}{4}$	$69\frac{1}{2}$
Local Loans	3	$99\frac{3}{8}$	$90\frac{1}{4}$	82
Transvaal	3	$99\frac{3}{8}$	$93\frac{5}{8}$	91
India	3	98	$80\frac{3}{4}$	72
Bank of England Stock	...	316	251	245
Bank of Ireland Stock	...	371	$280\frac{1}{2}$	220
Corporation of London	3	$95\frac{1}{4}$	$86\frac{1}{2}$	83
London County Council	3	$94\frac{1}{2}$	$85\frac{3}{4}$	77
Birmingham	3	$94\frac{1}{4}$	$85\frac{7}{8}$	80
Manchester	3	96	$86\frac{1}{2}$	82
Liverpool	3	94	$86\frac{3}{4}$	83
Glasgow	3	$94\frac{5}{8}$	$94\frac{1}{2}$	96
Edinburgh	3	$94\frac{1}{2}$	$94\frac{1}{4}$	93

In each case three sets of prices are given—first, the highest of 1904; next, the highest of 1912, when the present cycle of wars began; and lastly, the closing prices of July 30, which the Treasury, the Stock Exchange Committee, and the banks have made such desperate efforts to peg up. In the end, however, they must let down their minimum limits to the actual level of the market. The minimum price policy is now admitted to have been a mistake.

Decline in Consols in the two years preceding the out-

break of the war nearly 10 points, in Irish Land Stock $9\frac{3}{4}$, Bank of Ireland Stock $60\frac{1}{2}$, London County Council 3 per cents. $8\frac{3}{4}$, Manchester Corporation 3 per cents. $4\frac{1}{2}$. The one solitary gain to set against thirteen heavy losses is $1\frac{1}{2}$ in Glasgow Corporation Threes.

COLONIAL STOCKS, 1904–14

	Per Cent.	Highest 1904.	Highest 1912.	July 30, 1914.
Canada	3	99	$91\frac{3}{8}$	87
Cape	3	$88\frac{3}{8}$	$86\frac{1}{8}$	80
New South Wales	3	$88\frac{1}{8}$	$87\frac{1}{2}$	82
New Zealand	3	90	$87\frac{3}{4}$	80
Queensland	3	$87\frac{1}{2}$	$84\frac{3}{4}$	79
South Australian	3	$87\frac{3}{4}$	$81\frac{3}{8}$	74
Victorian	3	$88\frac{1}{2}$	$84\frac{7}{8}$	80
Western Australia	3	$89\frac{1}{2}$	$87\frac{1}{2}$	81
Manitoba	4	$103\frac{1}{2}$	$102\frac{5}{8}$	92
Nova Scotia	$3\frac{1}{2}$	$100\frac{1}{2}$	$91\frac{3}{4}$	84
Quebec	4	$106\frac{3}{4}$	$103\frac{3}{4}$	96
Newfoundland	$3\frac{1}{2}$	$94\frac{3}{4}$	$98\frac{1}{4}$	87
British Columbia	3	$87\frac{1}{2}$	$86\frac{1}{8}$	80
Barbados	$3\frac{1}{2}$	99	96	88

Colonial Government Stocks bore the brunt of the Balkan crisis more successfully than our own typical British funds. Those of the larger colonies suffered during the two years' shrinkage only moderate losses of 5 or 6 points. The smaller colonies, which have a narrower market for their securities, lost from 6 to 8 points, and in one case (Newfoundland) as much as 11 points. The Provincial Governments of Canada had all a sharp set back, thanks to over-borrowing. Quebec Fours shed during the prolonged Balkan crisis $7\frac{3}{4}$ and Manitoba $10\frac{5}{8}$. In the whole group of 14 stocks there is not a single instance of improvement.

The foreign group is peculiarly interesting not only as regards the slump which preceded the war, but also for

its illustration of the weakened national credit with which all the belligerents entered the world-wide struggle

FOREIGN STOCKS, 1904–14

	Per Cent.	Highest 1904.	Highest 1912.	July 30, 1914.
Argentine	5	$104\frac{3}{8}$	106	99
Brazil	4	$83\frac{1}{4}$	90	$64\frac{1}{2}$
Bulgarian	5	$94\frac{1}{2}$	104	80
Chilian	5	$100\frac{3}{4}$	102	94
Chinese	5	$103\frac{3}{8}$	$102\frac{5}{8}$	85
Egyptian Unified	4	108	$102\frac{1}{2}$	$95\frac{1}{2}$
Greek Monopoly	4	$49\frac{7}{8}$	$56\frac{5}{8}$	48
Hungarian	4	$101\frac{3}{8}$	$92\frac{3}{4}$	$74\frac{1}{2}$
Italian	$3\frac{1}{2}$	$104\frac{1}{8}$	99	$91\frac{1}{2}$
Japan	4	$78\frac{1}{2}$	93	80
Portuguese	3	$66\frac{1}{4}$	$66\frac{1}{2}$	63
Russian	4	$98\frac{1}{2}$	95	79
Servian	4	$78\frac{3}{4}$	$84\frac{3}{8}$	67
Turkish Unified	4	$87\frac{1}{2}$	$91\frac{5}{8}$	78
Spanish	4	$91\frac{3}{4}$	$69\frac{3}{8}$	85

FOREIGN STOCKS

(Coupons Payable Abroad)

	Per Cent.	Highest 1904.	Highest 1912.	July 30, 1914.
Austrian	4	$102\frac{1}{4}$	$85\frac{1}{2}$	$76\frac{1}{2}$
Dutch	3	$94\frac{1}{2}$	81	$77\frac{1}{2}$
French Rentes	3	$98\frac{3}{4}$	95	$76\frac{1}{2}$
German	3	$91\frac{1}{8}$	$80\frac{5}{8}$	71
Prussian	3	$90\frac{1}{4}$	$75\frac{1}{2}$	72
Swiss Federal	$3\frac{1}{2}$	$100\frac{7}{8}$	95	90

now going on. Hungarian 4 per cents. at $74\frac{1}{2}$ were 18 points below their top price in 1912, but Austrians had

lost only 9 and German Threes $9\frac{5}{8}$. Turkish Unified, on the other hand, were 13 points down. On the side of the Allies, Russian 4 per cents. had dropped 16 points, French Rentes $18\frac{1}{2}$, Japanese Fours 13 and Servian Fours $17\frac{3}{8}$. From the stock market point of view, all the belligerents started from an abnormally low level, and some of them may finish at a very much lower one.

BRITISH RAILWAYS, 1904–14

	Highest 1904.	Highest 1912.	July 30, 1914.
Caledonian Def.	$34\frac{9}{16}$	$22\frac{7}{8}$	$11\frac{1}{2}$
Central London Def.	94	$91\frac{5}{8}$	80
Great Central Def.	$17\frac{3}{8}$	$16\frac{5}{8}$	$9\frac{1}{2}$
Great Eastern Ord.	95	$70\frac{3}{4}$	$42\frac{1}{2}$
Great Northern Def.	$43\frac{1}{8}$	$56\frac{3}{4}$	$44\frac{1}{4}$
Great Western Ord.	$144\frac{7}{8}$	$122\frac{3}{4}$	$108\frac{1}{2}$
London, Brighton and South Coast Def.	$127\frac{1}{4}$	$111\frac{1}{4}$	72
London, Chatham and Dover Ord.	$17\frac{7}{8}$	$24\frac{5}{8}$	$10\frac{1}{2}$
London and North-Western Ord.	$159\frac{1}{4}$	$140\frac{3}{4}$	121
London and South-Western Def.	$58\frac{5}{8}$	$47\frac{3}{4}$	28
Metropolitan Ord.	102	$75\frac{1}{8}$	$31\frac{1}{2}$
,, District	$44\frac{1}{4}$	$51\frac{1}{2}$	19
Midland Def.	$71\frac{1}{2}$	$75\frac{1}{4}$	$62\frac{1}{2}$
North British Def.	$48\frac{1}{2}$	$33\frac{1}{8}$	$22\frac{1}{4}$
North-Eastern Consols	$145\frac{1}{4}$	$127\frac{3}{4}$	$115\frac{1}{2}$
South-Eastern Def.	$64\frac{1}{4}$	$73\frac{1}{8}$	$31\frac{1}{2}$

For examples of terrific depreciation we have to turn to the Home Railway group. On the *non sequitor* principle, as it was least concerned with the wars which so rapidly followed each other, it suffered most from them. Its losses during the two years' shrinkage were often three or four times as great as those of the Consol and the Foreign groups. Let the reader imagine what sort of a market it can be in which the stock of a railway doing a good progressive business shrinks in course of two years to less than one half of its official value. That was the

ease with South-Eastern Deferred, which declined from $73\frac{1}{8}$ to $31\frac{1}{2}$; with Chatham Ordinary Stock, which began at $24\frac{5}{8}$ and ended at $10\frac{1}{2}$. Metropolitan Railway and Metropolitan Districts made a still worse record, the first having tumbled from 75 to $31\frac{1}{2}$, and the second from $51\frac{1}{2}$ to 19. The heavy lines held their market values rather more firmly, but their losses were never under 10 points and sometimes over 20. For these almost tragical depreciations current earnings and dividends were quite blameless. They had rarely been better or even so good, but the market was blighted, and a curse seemed to rest upon it.

AMERICAN RAILROADS, 1904–14

	Highest 1904.	Highest 1912.	July 30, 1914.
Atchison	$91\frac{3}{4}$	$115\frac{1}{2}$	91
Baltimore and Ohio	$107\frac{1}{4}$	$115\frac{1}{4}$	70
Chesapeakes and Ohio	53	$88\frac{1}{2}$	42
Chicago and Milwaukee	$181\frac{3}{4}$	$120\frac{1}{4}$	$87\frac{1}{2}$
Denver	$35\frac{7}{8}$	$25\frac{1}{8}$	$4\frac{1}{2}$
Eries	$42\frac{7}{8}$	$40\frac{3}{8}$	21
Illinois Central	$162\frac{1}{4}$	$144\frac{1}{2}$	110
Louisville and Nashville	$151\frac{3}{8}$	175	$127\frac{1}{2}$
Missouri	$37\frac{1}{8}$	$33\frac{1}{4}$	$9\frac{1}{2}$
New York Central	$149\frac{3}{8}$	$124\frac{3}{8}$	$82\frac{1}{2}$
Ontario	$48\frac{3}{4}$	$42\frac{7}{8}$	19
Norfolk and Western	$82\frac{1}{2}$	$122\frac{3}{4}$	$101\frac{1}{2}$
Pennsylvania ($50)	$71\frac{3}{4}$	65	54
Reading ($50)	$42\frac{1}{4}$	$91\frac{7}{8}$	$76\frac{1}{2}$
Rock Island	$34\frac{1}{2}$	$31\frac{3}{8}$	$0\frac{1}{2}$
Southern Pacific	$70\frac{1}{2}$	$118\frac{1}{2}$	86
Southern	$38\frac{1}{2}$	$33\frac{3}{4}$	17
Union Pacific	$119\frac{3}{4}$	$181\frac{3}{4}$	$117\frac{1}{2}$
Wabash Pref.	$49\frac{1}{2}$	$23\frac{3}{4}$	$1\frac{1}{2}$

Badly as Home Railways had fared during the first war slump, Americans beat them in the downward race. One stock, the exploded Rock Island, dropped from over 30 to zero, Denver Common from 25 to $4\frac{1}{2}$, Missouris from

33 to $9\frac{1}{2}$, Ontarios from $42\frac{7}{8}$ to 19, Eries from 40 to 21, and so on, through a dismal procession of failures. Even among the higher grade stocks, which used to be considered investments, declines of 20 to 40 points were common. It is outside our present task to inquire into the causes of these grave losses. We are only dealing with them as indications of the financial conditions under which the great war was started. These, it will be seen, were not very encouraging for Finance Ministers generally.

INDIAN AND COLONIAL RAILWAYS

	Highest 1904.	Highest 1912.	July 30, 1914.
Bengal and North-Western . .	148	$159\frac{7}{8}$	$151\frac{1}{2}$
Bombay, Baroda and C.I. . .	$157\frac{1}{4}$	$104\frac{1}{2}$	106
East Indian Def. Annuity . .	130	107	$95\frac{1}{2}$
Great India Peninsula Guar. . .	$107\frac{3}{4}$	$105\frac{3}{4}$	$96\frac{1}{2}$
Scinde, Punjab and Delhi A . .	$22\frac{3}{4}$	$19\frac{1}{4}$	$17\frac{1}{2}$
Canadian Northern (Ontario) .	$103\frac{3}{4}$	92	91
Canadian Pacific	$139\frac{1}{4}$	$291\frac{1}{4}$	166
Grand Trunk Ord.	$22\frac{3}{16}$	$31\frac{9}{16}$	12
,, III.	$59\frac{1}{4}$	62	26
,, Western 4 . .	$102\frac{1}{2}$	96	84

Indian and Colonial Railways had had a very diverse experience in the two-year slump which preceded the war. Some Indian stocks like Bengal and North-Western, and Bombay, Baroda and Central India, hardly felt it, while the two great trunk lines, the East India and Great India Peninsula, added another to their long series of breaks. Their losses were, however, trifling beside those of the once popular Canadian group. Canadian Pacifics had last July been nearly cut in two (291 to 166), while Grand Trunks had little more than a third of their 1912 quotation left, and Grand Trunk Thirds had turned 62 into 26. Evidently a bad time in Canada as well as

in London for Stock Exchanges to be caught in a war panic !

The Commercial and Industrial group, the most

COMMERCIAL AND INDUSTRIAL

	Highest 1904.	Highest 1912.	July 30, 1914.
Associated Portland Cement . .	$6\frac{11}{16}$	$8\frac{1}{16}$	5
Barker, John	$2\frac{5}{16}$	$1\frac{7}{8}$	$1\frac{3}{4}$
Borax Pref.	$10\frac{15}{16}$	$6\frac{5}{16}$	$5\frac{3}{4}$
Brunner, Mond & Co. . . .	$5\frac{3}{8}$	$5\frac{1}{4}$	$4\frac{1}{4}$
Calico Printers	13/6	14/-	8/9
City of Santos Improvements .	$11\frac{1}{8}$	$13\frac{3}{4}$	$10\frac{1}{4}$
Coats, J. & P.	$5\frac{3}{16}$	$10\frac{11}{16}$	7
Dalgety	$5\frac{1}{8}$	$6\frac{1}{2}$	7
Dick, Kerr & Co.	$8\frac{1}{2}$	21/-	10/-
Electric Construction	$1\frac{3}{4}$	9/9	10/-
English Sewing Cotton . . .	15/-	45/6	33/9
Fine Cotton Spinners	28/9	32/3	32/6
General Electric	10	$10\frac{5}{8}$	$10\frac{3}{4}$
Harrods	4	$5\frac{1}{4}$	$4\frac{7}{16}$
Imperial Tobacco	26/3	28/6	25/-
Lagunas Syndicate	$3\frac{7}{16}$	19/9	5/9
Lister	$5\frac{3}{4}$	20/6	20/-
Lyons	7	$6\frac{7}{16}$	$6\frac{1}{4}$
Maple & Co.	50/-	48/6	45/-
Mond Nickel	$6\frac{5}{8}$	$3\frac{1}{2}$	$6\frac{1}{2}$
Nobel Dynamite	$19\frac{1}{2}$	$19\frac{3}{8}$	$15\frac{1}{2}$
Pears, A. & T.	35/-	38/-	37/6
Rio City Improvements . . .	$5\frac{5}{8}$	$4\frac{9}{16}$	$4\frac{1}{8}$
Russian Petroleum	32/6	5/-	3/-
Salt Union	16/-	15/6	5/-
Waring and Gillow	21/3	8/6	7/6
Welsbach	13/-	9/3	6/3
Woolcombers	20/-	23/6	21/3
Wouldham Cement	$6\frac{7}{8}$	$7\frac{13}{16}$	$8\frac{1}{4}$

numerous and varied of all, exhibit fewer traces of damage than the investment securities already reviewed. This, though at first glance paradoxical, is easily accounted for when we remember that investment stocks generally

rest on pure credit while commercials and industrials depend more on current earnings. During the two years' slump in stocks there was a strong boom in trade. Standard industrials consequently did well, and, though a good many misadventures occurred, they were offset by some exceptionally successful results. The group as a whole may be said to have come out about level, consequently it was less upset than some others by the war crisis.

SHIPPING SHARES, 1904-14

	Highest 1904.	Highest 1912.	July 30, 1914.
African Steamship	$11\frac{3}{4}$	$21\frac{1}{4}$	19
Anchor Line Pref.	$8\frac{7}{8}$	$10\frac{1}{2}$	$10\frac{1}{4}$
Argentine Navigation	...	25/6	11/3
Cunard	13/6	28/-	25/-
Ellerman	$11\frac{1}{16}$	$10\frac{5}{8}$	10
Furness, Withy & Co.	25/-	37/3	23/9
General Steam Navigation . .	$4\frac{5}{8}$	7	$5\frac{3}{8}$
Houlder Pref.	$4\frac{1}{32}$	$5\frac{3}{4}$	$2\frac{1}{8}$
India General Navigation . .	$5\frac{1}{2}$	$7\frac{7}{8}$	9
King Line	$7\frac{9}{16}$	$9\frac{1}{4}$	$8\frac{3}{4}$
Mercantile	$5\frac{1}{2}$	8	$5\frac{3}{4}$
New Zealand	$6\frac{3}{8}$	19	14
Orient Pref.	$6\frac{3}{4}$	10	$9\frac{1}{2}$
P. and O. Def..	224	422	280
Royal Mail	$50\frac{1}{2}$	155	$79\frac{1}{2}$
Union Castle	9	30	...
Leyland Pref.	$5\frac{3}{4}$	10	$7\frac{3}{4}$

The shipping table exhibits some natural effects of the exploded boom of 1912. It was followed by an all-round drop in market values which had reached its lowest point when the war broke out. But no sooner had the safety of the seas been re-established by the British navy than another shipping boom started. The above July prices may now be rather out of date, but they can still serve their original object of showing the actual condition of our stock markets when the war began.

LAND AND INVESTMENT COMPANIES

	Highest 1904.	Highest 1912.	July 30, 1914.
Alberta Land	... $4\frac{11}{16}$	96	65
Anglo-French		22/9	10/-
Argentine Land	$\frac{1}{4}$	$1\frac{5}{8}$	1
Australian Agricultural	66	70	66
Australian Mercantile Land and Finance Co.	$4\frac{5}{16}$	$7\frac{1}{8}$	$7\frac{1}{2}$
British North Borneo	11/3	24/-	13/9
British South Africa	$2\frac{1}{2}$	32/-	12/6
Canada Co.	43	28	18
Canada North-West Land	56	$89\frac{3}{4}$	54
Exploration Co.	17/-	17/6	6/3
Hudson's Bay	$54\frac{3}{8}$	140	70
Natal Land	$7\frac{7}{8}$	$5\frac{11}{16}$	$3\frac{3}{4}$
New Zealand Loan and Mercantile	$91\frac{1}{2}$	140	95
Pekin Syndicate	$12\frac{1}{4}$	$2\frac{1}{32}$	3/9
Peruvian Corporation	$14\frac{1}{16}$	14	$4\frac{1}{2}$
Santa de Land	$1\frac{1}{2}$	$3\frac{1}{16}$	...
Scottish Australian Investment	$53\frac{3}{4}$	$86\frac{1}{2}$	$109\frac{1}{2}$
South Australian Co.	$50\frac{1}{4}$	$57\frac{7}{8}$	68
Trust and Loan of Canada	$5\frac{9}{12}$	$6\frac{3}{8}$	$5\frac{7}{8}$

The above group might be divided into two sections—Canadian and Australian. The Canadian quotations represent the wreckage of an exploded land and finance boom, while the Australian ones testify to a boom which had just arrived when the war broke out. It was then in full swing, and its representative stocks exhibit substantial advances from the level of 1912. They are in fact almost the only examples of general improvement on the official list. *Per contra*, Argentine, Canadian, and South African lands were all under a cloud. A noticeable incident is that Hudson's Bays were among the unfortunates that got cut in two. The war crisis found them at 7 (equal to 70 in their old form) as compared with 140, their top note in 1912.

Like Home Railways, the Coal, Iron and Steel group exhibited paradoxical movements. It might have been

COAL, IRON, AND STEEL SHARES

	Highest 1904.	Highest 1912.	July 30, 1914.
Armstrong	$3\frac{3}{8}$	48/-	$3\frac{3}{16}$
Beyer, Peacock & Co.	7/8	15/-	15/-
Bolckow, Vaughan & Co.	20/6	23/3	21/3
Cammell & Co.	$8\frac{5}{16}$	$5\frac{5}{8}$	$3\frac{7}{8}$
Cargo Fleet	...	13/3	13/9
Corry, W., & Sons	$7\frac{3}{4}$	29/9	26/3
Dorman, Long & Co.	7/9	22/9	17/-
Fairbairn, Lawson & Co.	20/-	26/-	15/-
Fraser & Chalmers	$4\frac{7}{8}$	$2\frac{3}{4}$	11/3
Guest, Keen & Nettlefolds	45/-	68/3	65/9
Howard & Bullough	31/9	58/-	40/-
Lysaght, John, Pref.	27/6	26/9	25/-
North's Navigation	$6\frac{3}{8}$	$6\frac{3}{16}$	$5\frac{5}{8}$
Rhymney	$2\frac{9}{32}$	51/6	10/-
Ruston, Procter & Co.	1	$1\frac{1}{4}$	$1\frac{1}{16}$
South Durham	12/-	33/-	23/9
Swan, Hunter & Co.	1	1	$\frac{15}{16}$
Thornycrofts	$1\frac{1}{32}$	$1\frac{3}{16}$	12/6
Vicars	52/6	44/-	33/9
Walter Scott	$\frac{15}{16}$	16/-	10/-

expected that the trade boom would brighten them up and strengthen their position in the market, but the opposite result followed. Apart from one or two exceptional gains, as in Armstrongs, the list has nothing to show but losses, some of them heavy. Rhymney, for instance, were only 10/- as compared with 51/6, their high level of 1912, Fraser & Chalmers were only 11/3 against 55/-, Thornycroft 12/6 against 23/9, and Cammell's $3\frac{7}{8}$ against $5\frac{5}{8}$. Provincial exchanges were almost as much affected as London by the depreciation of this group, which is extensively held all over the country.

Our last illustration of how ill-fitted the stock markets were for a great financial effort is obtained from the mining list. Only a small percentage of the hundreds of mines dealt in are officially quoted. The above are a few of the best known and most active. As a rule they

MINING SHARES, 1904–14

	Highest 1904.	Highest 1912.	July 30, 1914.
Anaconda	$8\frac{11}{32}$	$9\frac{27}{32}$	5
Arizona	$2\frac{1}{4}$	$2\frac{1}{4}$	$1\frac{9}{16}$
British Broken Hill	18/9	63/3	28/9
Cape Copper	$4\frac{15}{16}$	$9\frac{1}{4}$	$2\frac{1}{2}$
Consolidated Goldfields	$8\frac{15}{32}$	$4\frac{25}{32}$	$1\frac{13}{16}$
De Beers	$19\frac{1}{2}$	$22\frac{3}{4}$	$14\frac{1}{4}$
Durban Roodepoort	$5\frac{27}{32}$	2	$\frac{7}{8}$
Geduld	$7\frac{11}{16}$	$1\frac{19}{32}$	$\frac{15}{16}$
Mysores	$6\frac{7}{8}$	$6\frac{1}{16}$	$3\frac{15}{16}$
Namaqua	4	$5\frac{7}{8}$	$2\frac{3}{4}$
Nundydroog	46/3	39/-	22/6
Rio Tinto	$63\frac{3}{8}$	$85\frac{1}{2}$	$53\frac{1}{2}$
St. John del Rey	16/9	19/-	13/6
Simmer & Jack	$2\frac{15}{32}$	$1\frac{3}{16}$	$\frac{15}{32}$
Tharsis	$5\frac{1}{2}$	$7\frac{1}{8}$	5
Transvaal Gold	$3\frac{3}{32}$	3	$1\frac{5}{8}$
Van Ryn	$4\frac{3}{8}$	$4\frac{1}{16}$	$2\frac{1}{2}$

represent large producers and dividend payers. There is not a wild cat amongst them, and yet they could not have fared worse if they had all been the wildest of wild cats. Declines of 50 to 70 per cent. are by no means exceptional amongst them. Here, as elsewhere, the Stock Exchange was on bed rock when the Committee shut it down. Its poverty alone saved it from a catastrophe on that fateful July 31, when its doors were closed. But, badly hit as it had been, it was still solvent.

CHAPTER V

A COLOSSAL AMOUNT OF NEGOTIABLE SECURITIES AT STAKE

NEXT to the Stock Exchange, the class who came off worst in the war crisis was the holders of negotiable securities. Not only were the values of their property knocked all to pieces, but they were rendered for the time being unsaleable. Their market was literally shattered, and although in some directions it may have begun to recover, the present generation may not live to see it fully restored. But no pity, official or unofficial, has been wasted on the holders of negotiable securities. Their interests and dividends may have stopped, their rents may be no longer collectible, they may, and in fact often have been, reduced to great straits; but no Bankers' Committee has taken up their case, no Treasury guarantee has been suggested on their behalf. Nevertheless, they have so far been the greatest losers by the war.

In order to find some explanation of this paradox, it is necessary to know something about the enormous mass of negotiable securities that had accumulated in the world before the war broke out. This is not only an important problem, but one of great magnitude. It turns on figures running into thousands of millions. Hitherto it has been treated rather as a statistical curiosity than a question of practical finance. It is not a fit subject for Cabinets or Select Committees or House of Commons debates. Ex-Premiers who frankly confess that they are "infants in finance" will, of course, give it a wide berth. M.P.'s who "specialise in finance" are growing every year fewer and more select. They also exhibit a tendency to form a coterie of their own. There is a certain freemasonry among them even when they sit on opposite sides of the

House. And their friendships may be of worse omen for the taxpayers than their hostilities used to be. The peril of our national finance to-day is superficial, half-hearted, and make-believe criticism. What with front bench courtesies and back bench futilities, the House of Commons is rapidly shedding its financial functions and duties.

Unlike the politicians, the press is not unfaithful to its financial duties, but it discharges them in a peculiar way. They form no part of the regular journalistic curriculum, but are relegated to specialists. Between Fleet Street and the City there is apparently a fixed gulf which neither of them appears to have any desire to bridge over. To the ordinary journalist, however high up, "the City" is a place apart from the everyday world. It is regarded with suspicion, but at the same time with unconscious envy, as a place where fortunes are made and unmade with dazzling rapidity, where values rise or fall by millions sterling at a time, and where the decalogue calls for special modifications to suit the climate.

The average speculator knows less about the shares he gambles in than the average betting man knows about the horses he puts his money on. He has, however, some advantages over the betting man. It is quite possible, by dint of a moderate amount of intelligent and well-directed study, to acquire knowledge enough of the stock market to be able to understand its ordinary movements, and to distinguish the wheat from the tares in the very mixed crop it produces. A comparatively small amount of experience combined with a moderate degree of sagacity ought to save any one from disastrous mistakes. As for positive fraud, the law is now much more alert and vigilant than it ever was before. There are so many facilities for honest speculation, that nobody has much excuse for falling into even the cleverest traps.

The first impression to be derived from a survey of the wide field of modern finance is one of overwhelming magnitude. The next is a sense of bewilderment at its amazing and ever increasing variety. Not only is finance the greatest and most cosmopolitan of all industries,

but it extends more rapidly than any other. The growth of either home or foreign trade in its best years is stagnation compared with the meteoric evolutions of money and stocks. The bank clearings of to-day overshadow those of twenty years ago. The volume of securities dealt in even in these dull times throws into the shade that of last generation. And every year it is being increased by further creations of £150,000,000 or £200,000,000. Where the new issues find an ultimate home is a standing puzzle in Capel Court.

According to the latest statistical estimates, the world contains negotiable securities to the aggregate value of 40,000 million pounds sterling. This is nearly fourteen times the total amount of coin, paper, and other currency. The Americans modestly claim one half of the 40,000 millions, and graciously leave the other half to be shared by the outlying continents of Europe, Asia, and South America. However sceptical we may be as to this division, it must be conceded to our American friends that they have studied the subject much more thoroughly than we have done, and that they possess more specific data than we do regarding it. As to their own share, they have a fair supply of official figures collected under the Corporation Tax law passed during the Taft Administration. A sound economic authority, writing in the *Financial and Commercial Chronicle* of New York, says:

> "Securities have become in recent years one of the most important factors in modern commercial and financial life. In the United States the par value of the bonds and stocks of the 288,352 corporations making reports to the Commissioners of Internal Revenue under the Corporation Tax law is in excess of $92,000,000,000, representing nominally nearly three-quarters of the national wealth."[1]

Mr. Conant may be on firm ground while he has United States statistics to support him, but when he undertakes to supply corresponding figures for European countries, the farther east he goes the more shadowy they become. When he reaches Asia he can hardly offer more than skil-

[1] Mr. Conant in the *Financial Chronicle*, August 30, 1913.

ful estimates, while the republics of South and Central America may be beyond even that range. On such an interesting subject, however, even estimates may be worth studying, and Mr. Conant's are among the best that can be got. In the above article they are thus introduced to us :

"The total issues of securities in European, Asiatic, and South American countries were estimated as long ago as the year 1900 at about $75,000,000,000 (£15,000,000,000), and this amount has undoubtedly been increased during the succeeding thirteen years to not less than $100,000,000,000 (£20,000,000,000). Thus in the United States and other advanced countries there exists not less than $192,000,000,000 (£38,400,000,000) in negotiable bonds, stocks, notes, and similar securities. In so far as these instruments are considered a means of transferring readily a title to property, they are more important in amount than currency, which, including coin, does not exceed $15,000,000,000 (£3,000,000,000) for the entire world, or less than one-twelfth of the amount of the securities known to be outstanding." [1]

Though we have no great body of wealth statistics to compare with the returns of the 288,352 corporations in the United States, there are several sources from which something may be learned indirectly. One of the most useful is the table of par values of all the securities quoted on the London Stock Exchange published yearly in the *Official Intelligence*. The valuation made on December 31, 1913, reached the huge total of 11,262 millions sterling. We adopt it here for two reasons—first, that it was the last issued before the war, and second, because on December 31, 1914, very few stocks had prices at which they could be valued for any business purpose—not even for death duties. It is true that a large proportion of these securities is not British owned. Against that, however, has to be set a mass of securities not officially quoted in London, as well as a great variety of provincial securities which are limited to their own local markets. In the official list the 11,262 millions sterling is subdivided into

[1] *Financial Chronicle*, August 30, 1913.

forty classes, which vary in size from 1013 millions sterling for British funds down to £7,182,000 for waterworks. Here it will be more convenient to combine them into about a dozen groups illustrating the various grades of present-day investment and speculation.

There are many things to note about this imposing array of figures now to be presented to the reader. First, it shows that more than one-fourth—£11,262,000,000—out of the whole £40,000,000,000 of negotiable securities in the world find their chief market in London. Next it proves the wonderful variety of modern finance and its world-wide ramifications. But a more important consideration than either of these is the strain on the national morals which the building up of such a huge financial structure must have involved. It offered opportunities for abuses and malpractices of every conceivable kind. From Consols to Marconis there has been scope for innumerable shades of honesty and dishonesty. These are not confined to the speculative groups or to the markets which are popularly regarded as shady. Every group has its own risks and dangers, which demand safeguards adapted to them. General rules and maxims are useless in practical finance.

Another point of interest in these groups is the curious distribution of invested capital which they indicate. Less than one-third of it has found employment at home, and fully two-thirds has had to be spent abroad. The largest group of all is foreign Government and corporation stocks (£3,210,100,000), and the second largest foreign railway stocks (£2,465,740,000). These two together constitute fully one-half of the aggregate value of the Official List. The two largest groups of domestic securities are British public funds (including corporation stocks), £1,290,109,000, and British railways, £1,217,337,000. The commercial, industrial, and banking groups range from 483 millions to 609 millions sterling, and average little more than a third of the home railway capitalisation. It is particularly significant that the total amount of banking securities in the Official List—the pivot on which the Stock Exchange revolves—is only 294 millions

sterling, just about a fortieth part of the investment and speculative values it has to support. The subjoined groups are as far as possible arranged according to the nature of the securities :

SECURITIES OFFICIALLY QUOTED ON THE LONDON STOCK EXCHANGE.

	Their Par Value December 31, 1912.	Their Par Value December 31, 1913.
I. BRITISH PUBLIC FUNDS.		
Government Stocks	£1,011,943,209	£1,013,032,613
Corporation Stocks (U.K.)	189,199,694	189,540,000
Public Boards	87,621,251	87,536,451
	£1,288,764,154	£1,290,109,064
II. INDIAN AND COLONIAL.		
Government Bonds	£48,703,950	£54,998,720
Government Inscribed Stocks	354,019,123	400,678,299
Corporation Stocks	66,259,564	80,232,636
	£468,982,637	£535,909,655
III. FOREIGN STOCKS.		
Government Bonds—		
Coupons payable in London	£1,400,155,460	£1,421,869,166
Coupons payable abroad	1,731,569,531	1,711,992,545
Corporation Stocks	65,215,231	76,238,441
	£3,196,940,222	£3,210,100,092
IV. RAILWAYS—UNITED KINGDOM.		
Leased at Fixed Rentals	£9,398,822	£10,012,822
Debenture Stocks	325,566,966	328,067,190
Guaranteed Stocks	131,042,525	129,982,539
Preference Stocks	308,138,133	317,211,707
Ordinary Stocks	435,940,798	432,062,998
	£1,210,087,244	£1,217,337,256
V. INDIAN AND COLONIAL RAILWAYS.		
Indian Government	£149,631,169	£150,647,470
Native and Zemindary		731,700
British Possessions	290,031,820	313,399,937
	£439,662,989	£464,779,107
VI. FOREIGN RAILWAYS.		
American Stocks and Shares	£823,950,270	£804,311,257
American Bonds	906,518,477	925,298,108
Foreign Stocks and Bonds	709,283,085	736,131,225
	£2,439,751,832	£2,465,740,590

VII. Credit Securities.		
Banks and Discount Companies	£286,288,259	£294,380,719
Financial and Investment Companies	131,780,108	133,401,076
Trust Companies	107,452,773	115,270,064
Insurance Companies	69,122,081	66,378,509
	£594,643,221	£609,430,368
VIII. Industrial Group.		
Breweries and Distilleries	£106,045,393	£103,815,448
Iron, Coal, and Steel	308,287,916	329,760,216
Nitrate	7,479,325	7,548,765
Oil	20,530,375	23,567,748
Tea, Coffee, and Rubber	23,127,890	24,947,235
	£465,470,899	£489,639,412
IX. Commercial Group.		
Manufacturing and Trading	£380.209.804	£438,632,864
Shipping	42,149,976	45,332,783
	£422,359,780	£483,965.647
X. Public Utilities.		
Canals and Docks	£19,279,098	£19.854.110
Electric Lighting and Power	67,222,880	75.348,555
Gas	63,508,894	74,220,767
Telegraphs and Telephones	136.575,201	141,113,162
Tramway and Omnibus	109,208,045	117,481.918
Waterworks	6,867,631	7,182,731
	£402,661,749	£435,201,243
XI. Mining Companies	£60,609,330	£60,245,443

SUMMARY.

	Their Par Value December 31, 1912.	Their Par Value December 31, 1913.
I. British Public Funds	£1,288,764,154	£1.290.109,064
II. Indian and Colonial	468,982.637	535,909,655
III. Foreign Stocks	3,196.940,222	3.210,100.092
IV. Home Railways	1,210.087.244	1.217,337,256
V. Indian and Colonial Railways	439,662,989	464.779,107
VI. Foreign Railways	2,439,751,832	2,465,740,590
VII. Credit Securities	594,643,221	609,430.368
VIII. Industrials	465,470,899	489,639,412
IX. Commercial	422,359,780	483.965.647
X. Public Utilities	402,661,749	435,201.243
XI. Mines	60,609,330	60.245,449
	£10,989.934,057	£11,262,457,883

As to the true economic character of the above 11,262 millions sterling worth of negotiable securities officially quoted on the London Stock Exchange, there are wide differences of opinion. These differences are proportionately greater with regard to the 40,000 millions sterling at which the world's stocks of negotiable securities have been valued by experts like Mr. Conant. The most vital issue in this controversy turns on the proportions of material wealth and paper wealth contained in the various groups of securities. Involved in that is a secondary issue as to the chief source of our new investments—whether it is national savings or credit operations. The former view is strongly maintained by political optimists at Westminster and elsewhere, but the latter is more favoured by business men in the City.

There is also an ethical side to this discussion. The safety of a stock depends, of course, on its quality, and the safer it is, the higher the character of the dealing in it. Professional dealers in Consols or home railway debentures could not be imagined stooping to market-making manœuvres which are considered pardonable in the Kaffir Circus. It might be much better for the Stock Exchange and the country if there were business enough in gilt-edged stocks to render speculation unnecessary. Jobbers, brokers, and investors might then set the highest possible examples of financial morality. But the actual conditions are otherwise. The supply of gilt-edged securities is relatively small, and every year it grows smaller. The necessity to go farther afield is increasingly felt by professional financiers. In order to continue creating new securities they have to use inferior materials, and consequently to take greater risks. So long as they can pass on these risks to the public they are all right, but when the public decline to accept them things go wrong.

As securities increase in quantity and variety, the tests to be applied to them must become more scientific as well as more severe. They can hardly be reliable while fundamental questions like the relations between material wealth and paper wealth remain in doubt. Our credit

resources are to a large extent only paper wealth, though they are very apt to be mistaken for real wealth. Our new investments are in the same way often mistaken for real savings. The first step therefore in valuing our negotiable securities should be to ascertain how far they rest on pure credit without tangible assets behind it. There may be credit superior to any material guarantee, but it is rare nowadays, and is being rapidly curtailed by the gigantic borrowing of late years.

The mass of credit that has accumulated in the one square mile of the City of London is too immense for figures to convey the faintest conception of it to ordinary minds. The British Government alone has now nearly 1500 millions sterling of it to provide for in one form or another. Foreign Governments have more than 3000 millions of loans registered here. Though some of them are distributed over the chief international markets, in the last resort London has to be their mainstay. Before the war they were most easily bought or sold here, and forced sales of them from any quarter would affect all the other markets. At least nine-tenths of these Government stocks, British and foreign, rest on credit pure and simple. The other tenth may be represented by substantial assets. In the 455 millions sterling of Indian and Colonial Government Stocks there may be a larger proportion of substantial assets than in the foreign stocks, much of their proceeds having been expended on State railways. The element of credit will, however, be considerable even in them.

Together these three great groups of national debts—British, Foreign, and Colonial—aggregate nearly 4600 millions sterling. Speculative operations are always pending in them, sometimes running into hundreds of millions. But the hard cash at the command of the operators may be infinitesimal. They work almost exclusively with credits of various kinds—daily, fortnightly, or monthly. Thus we have here three sets of credit operations, all demanding high ethical standards. The Government behind the loan, the market dealing in it, and the banks which finance the market, all require to have perfect confidence in each other. Failing that,

the tangible assets, even if they could be realised, would go a very short way toward settling accounts.

As a set off to these huge groups of credit securities, there are others in which tangible assets predominate over credit. Railway stocks, British, Colonial, and foreign, aggregate 4147 millions sterling. Huge as that total looks, it is several hundred millions less than the aggregate of the Government stocks, which depend chiefly on credit. If the Stock Exchange were guided by logical rules, railway stocks ought to be the steadiest of all. They should be least affected by financial panics, war alarms, or political vagaries, but in fact they are the most sensitive. On bad days they generally lead the depression, though they have least to fear from it. Whatever happens, people must travel, goods must be moved, and trains must run.

Railway business has another advantage over others in the large proportion of it done for cash. It is only new railway building that offers much scope for financing. Here, no doubt, credit operations are often carried to excess, but, whether gradually or by a violent convulsion, they soon get back to a cash basis again. With a well-established and properly-managed railway in a civilised country, credit risks may be reduced to a minimum. Its property is tangible, its income is regular, and as a rule progressive. Its credit may fluctuate with trade and monetary conditions, but it need never be subjected to very dangerous strains. And whatever the strains may be, they are generally open to the light of day.

Apropos of the vexed question of railway nationalisation, it may be noted in the foregoing summary that before the war the British railway securities officially quoted in London nearly equalled the then aggregate of British public funds, national and municipal. The respective totals were 1217 and 1290 millions sterling. If all the railway stocks were converted into public funds, the latter would be practically doubled (2507 millions sterling). At the same time it would reduce the volume of British securities privately owned and controlled by at least 40 per cent. At present home railways, banking,

financial, industrial, and commercial securities, telegraphs, tramways, electric lighting, &c., form a grand total of about 3200 millions sterling. Strike off the 1290 millions for home railways, and less than 2000 millions will remain.

Within that comparatively narrow circle private enterprise would thereafter have to confine itself. As far as individual citizens are concerned, modern finance in Great Britain would be restricted to banking, trading, manufacturing, and mining. These employ little more than one-fifth of the capital represented by all the officially quoted securities on the London Stock Exchange. The other four-fifths would be public debt of various kinds combined with the latest developments of public ownership. Such a complete turn over in the relative proportions of public and private property could not fail to have far-reaching effects, political and economic. In nationalising the railways by far the largest block of private capital that survives will be turned over to the State. It will become State property, and at the same time State debt—a very anomalous asset indeed.

The problem of credit is sufficiently puzzling in the present economic regime, where a distinct line is drawn between debtors and creditors, but in the new dispensation where the State is to be chief owner and at the same time chief debtor it will be a perennial conundrum. Whether that would make for cleaner and honester finance than we have had heretofore is a serious question. So far the omens are not very hopeful.

PART II

RELIEF MEASURES

CHAPTER VI

THE SAVIOURS OF THE SITUATION

One of the most creditable features of the emergency measures adopted to meet the crisis was the promptitude with which committees of experts were formed in the various departments of City business. The clearing banks had their Standing Committee ready to hand. The Stock Exchange had its General Purposes Committee. All the metal, grain, and colonial produce markets had their respective organisations, which were soon at work. At first they could do little but stand on guard waiting developments. It was for the Treasury to take the lead, and Mr. Lloyd George had no lack of skilled advisers. Ex-Chancellors of the Exchequer—notably Mr. Austen Chamberlain—placed their services at his disposal. The Lord Chief Justice—his old friend Sir Rufus Isaacs, now Lord Reading—sat beside him day after day. Outside help and counsel of the most diverse kinds were always available. It may be said that the whole commercial skill and experience of the City were brought to bear on the various problems of the crisis as they arose.

Some of these consulting committees had sub-committees under them to work out details and superintend their execution. One such sub-committee was of a very mixed and cosmopolitan character. It represented the foreign exchange departments of the London and foreign banks which specialise in that branch of business. Mr. E. F. Davies, of the London County and Westminster Bank, appears to have been its organiser, and its first meeting was held on August 8, the day after the banks reopened at the end of a memorable Bank Holiday week. On the following Monday (August 10) it issued the first of a series of circulars which were very helpful

to buyers and sellers of bills. They fixed provisional rates at which business could be done. By this means the rates were so far steadied that in a short time it was deemed safe to reopen the bi-weekly bill market in the Royal Exchange.

This was the first of the City markets to get back again into its stride, so to speak. Lombard Street quickly rallied, but only to rush from one extreme to the other. Within a week it suffered all the agonies of a 10 per cent. bank rate and the discomforts of a 2 per cent. glut of money. Capel Court was turned inside out and left shivering in the cold. Whether the many different policies that were applied to different cases were right or wrong will have to be judged by results later on.

But at the outset unstinted credit must be given to the whole of the financial authorities who had to stand in the breach in the first hour of unforeseen peril. Long and anxious conferences had to be held before even a provisional policy could be agreed upon. The one which decided on the closing of the Stock Exchange lasted, it is said, until midnight on July 30. Then the Stock Exchange Committee had to meet again early next morning to arrange for carrying it out. Concurrently the problem of the foreign exchanges and the threatened deadlock in the bill market had to be solved. On this depended not merely the solvency of Lombard Street, but the ability of the joint-stock banks to continue to finance the national trade and industry.

It is another question that must be reserved for future decision whether at the opening of the crisis the banks rose to the full height of their responsibility. It is thought by many that they were a little too timid and too ready to appeal to the Treasury for help. Certainly there was no timidity on the part of the Treasury in responding to their appeals. It was fortunate for them that they had an unconventional and free-handed Chancellor of the Exchequer to deal with. An orthodox Finance Minister like Lord Goschen would have been very slow indeed to guarantee hundreds of millions of discounts "without recourse." Even Mr. Lloyd George apparently could not

be brought to it in a hurry, as up to the night of July 31 no definite decision had been arrived at. On Saturday morning (August 1) all that the public could be officially told was that "interviews had taken place between the Prime Minister, the Chancellor of the Exchequer, and representatives of the Bank of England and the leading joint-stock banks in regard to the financial situation."

A second and larger conference was held on the Saturday afternoon, as the result of which a royal proclamation was issued, granting a month's grace to all bills of exchange that had been accepted before August 4. This was the second special relief obtained by the banks before anything was done for the general public. The closing of the Stock Exchange had been urged by them less for the sake of the stock market than for the protection of their own securities held either as investments or as collateral for their Stock Exchange loans. They had by far the largest stake in Capel Court.

During these critical days it was not bills of exchange that the trading community were most concerned about. It was the scarcity of currency, and of small money in particular. This is an invariable feature of the beginning of a financial crisis, and it is what should be first remedied. Persons who remembered the crisis of 1857 and 1866 wondered why the Bank Act was not suspended at once, so as to give the Bank of England a free hand to do whatever seemed necessary. This question could not fail to be discussed at the outset of the Treasury conferences, but days passed before any decision was come to regarding it. At the first conference on the day that the Stock Exchange was closed (July 31) the situation was not considered "such as to justify any emergency action in regard to the supply of legal tender currency," but a promise was given that in the event of further developments necessitating Government action, the Treasury would be prepared to take such action immediately.

A staving-off decision like that could have only one meaning, namely, divided counsels. Nor is it difficult to guess where the line of division was likely to lie. For

years the heads of the banking world had been at loggerheads about their gold reserves, and the mere thought of a European war raised the issue again in its most acute form. Some are said to have favoured pooling the various stocks of gold and making special arrangements to secure the whole of the South African output. They were sanguine enough to hope that by these means the suspension of the Bank Act might be avoided. Others feared that the drain of gold might get beyond control, and that after a long struggle the Bank might have to do in an exhausted condition what could be better done at once, while it was still strong and secure. In the end the difficulty was solved by a *deus ex machina*—Treasury intervention on an almost unlimited scale. Strictly speaking, several novel factors came unexpectedly into operation to check the drain of gold. One was the £1 and 10*s*. notes issued by the Treasury; a second was the appeal of the banks to the public to be as reasonable as they could in their requests for gold coin; a third was the moratorium; and a fourth, but by no means the least powerful, was the exclusion of Germany and Austria from the international money market.

A shorthand note of the discussions between the Treasury experts and the City bankers as to the best means of meeting the shortage of small money in the fateful last week of July would make very instructive as well as interesting reading. It is not at all likely to have been confined strictly to the proper question. Our currency discussions never are. They had probably half a dozen side issues tacked on to them—first, the question of smaller notes than £5, which has been the legal minimum of the Bank of England for nearly a hundred years; second, whether they should be issued by the Bank of England or by the Treasury on its own responsibility; third, how they should be covered—whether with a gold reserve alone, or a security reserve, or a combination of the two; fourth, if a gold reserve were decided on, who should furnish it—the Government or the banks, or both together; fifth, whether the Bank Act of 1844 should

be suspended for a time, or amended and brought up to date, or left alone.

Not only might there be opposite opinions expressed on all these points, but some conflict of interest was not impossible. The City bankers, who for years have been insisting on the necessity for a national gold reserve, quite apart from that of the Bank of England, would naturally seize such an excellent opportunity to drive home their claim. They would reiterate their old arguments about the unprotected millions of deposits in the Post Office Savings Banks. They might also resurrect the vexed question of who should pay for the increased gold reserves which all agreed were absolutely necessary to enable us to weather even moderate financial storms, to say nothing of a world-wide crisis like the present one. But whatever the character of the discussions or the course they took, the result at which they arrived was the usual sort of makeshift.

In the throes of such an emergency it would perhaps have been unreasonable to expect any well-considered currency scheme. Much as expansion and adaptation to present-day requirements were needed, there was no time to think them out. It might, however, have been reasonably expected that the new move would be made on the right road toward a proper solution of the paper-money problem as soon as Parliament had time to take it in hand. The consulting committees had at least a good opportunity to choose between simplifying the question or further complicating it. Whether consciously or not, they have preferred complication to simplification. The remedy which they hastily adopted is of the hand-to-mouth order. The Currency Act has that feature clearly written all over it, and if further evidence were needed, it is forthcoming in the very divided opinions of its authors as to its probable future.

At least one eminent banker in the City has affirmed his belief that it is not a mere makeshift, but something that has come to stay. In his opinion it will become the nucleus of a permanent system of minor currency issued by the Treasury under its direct guarantee and manage-

ment. This, if true, would be a really important event, and there would be a good deal to say for it as well as against it. Such an arrangement works well in Canada, where bank notes have a minimum of five dollars, and all the smaller denominations are provided by the Government. Paper dollars, half-dollars, and quarter-dollars form the principal money of retail trade. No one in this country would look at anything smaller than a ten-shilling note, so that a British issue would be much more select and easier to manage than the Canadian one.

The arguments for State issues of small notes are numerous. Moreover, they are practical as well as theoretical. One of the most plausible is that the national gold reserve can be much more easily protected against them than against the large notes of the Bank of England. Even £5 notes can be easily collected in sufficient quantities to enable a sinister-minded alien to make very inconvenient demands on the Bank's limited stock of gold. But it would take a pretty long time to accumulate an equally dangerous supply of £1 notes. The theory of their advocates is that they would seldom be taken to the Bank of England and gold demanded for them. Moreover, anything up to £2 could always be paid in silver. The Bank could, if it had reason to suspect bad faith, insist on paying each £1 note separately, and paying it in silver.

But excluding any question of deliberate abuse or of quibbling on the part of the Bank of England in order to defeat it, a well-established State issue of small notes would without doubt tend toward a valuable economising of gold. It would begin by supplanting a certain number of sovereigns and half-sovereigns, the bulk of which find their way into one or other of the gold reserves, either the Bank of England's or those of the clearing banks. Afterwards it might help to keep them there—an even greater service to the gold reserves. A double process of economising the yellow metal would be going on at the same time—displacement of it from circulation and rendering it more difficult to withdraw from the reserves.

But all these are as yet merely speculative considerations. The emergency issue which was ultimately decided

upon by the consulting committees was a Treasury issue only in name, and not at all what the term would naturally suggest. It is a roundabout loan by the Treasury to the banks—made not in money, but in State guaranteed paper. The official explanation of it tabled in the House of Commons on August 27, 1914, is headed :

"The following are the arrangements made in accordance with the provisions of the Currency and Bank Notes Act, 1914, for placing currency notes at the disposal of the banks for meeting exceptional demands."

The notes, it is said, are to be issued through the Bank of England as and when required, up to a maximum limit of 20 per cent. of the deposits and current balances of each bank. Seeing that the latter have an aggregate of 1142 millions sterling, 20 per cent. of which would be 228 millions sterling, the maximum was sufficiently generous. Happily, it proved in the event to be over-generous. The actual circulation of the Treasury notes has seldom exceeded 37 millions sterling—in one sense a very satisfactory result, as it shows that the scarcity of currency at the beginning of the crisis was much smaller than alarmists tried to make out—but a disappointing result as regards the popular reception given to the new notes. The English prejudice against paper money was discovered to be almost as strong as ever, and the banks themselves, though professedly in favour of small notes, did not welcome them very warmly in practice. They, or rather their cashiers, had one serious objection to them. They were more difficult to handle than sovereigns, and also involved greater risk of mistakes. Counting notes and taking down their numbers occupied more time than counting and weighing sovereigns. Besides, the original "luggage label" notes were too miserable for words: mean-looking, inartistic, and so plain that they almost challenged forgery.

But the "luggage labels" had at least one redeeming quality. They made excellent business for the Treasury. The amount of them issued to each bank was to be treated as a direct advance by the Treasury to that

bank. It was to bear interest from day to day at the current bank rate, and was to be secured by a floating charge on the bank's assets. Repayments and fresh advances could be made at any time and to any amount within the 20 per cent. of the bank's deposits and current balances. Repayments to the Bank of England were to be applied to cancelling notes which might happen to be on hand, or, failing sufficient notes to cancel, the excess was to be placed to a special account for cancelling notes as they came in later.

When we reach this stage in the official explanation it begins, perhaps, to dawn on us that the whole scheme sounds rather American. That impression is confirmed by the next clause, which introduces an unmistakably American specialty, namely, the clearing-house certificate. It says, "In order to give the banks the advantage of the credit allowed under this arrangement, even though actual currency may not be required, it is proposed by the amending Bill to take power to issue certificates in lieu of actual notes." The effect of the issue of these certificates, we are next told, will be to enable the banks to obtain credits with the Bank of England on the same terms as on currency notes, and the expense of printing and handling notes will be avoided except in so far as the notes may be required for actual circulation.

The distinction here drawn between the notes proper and the certificates to be used as a substitute for them raises a question which of the two was the chief object of the Bill—whether to relieve the scarcity of small money or to supply the clearing banks with certificates *à l'Americaine* for the settlement of their clearing balances with a minimum transfer of cash. Both objects were quite legitimate in the critical circumstances, but they have been rather cleverly mixed up together. The certificate scheme is a banking affair pure and simple, and though admissible here as a sort of parasite, it would be quite out of place in a logical and self-consistent currency. This should have nothing to do with the clearing-house or with clearing-house certificates. Neither

should the Treasury make use of it for making paper loans to joint-stock banks at high rates of interest.

The Scottish and Irish banks were included in the arrangement, though, as they are already well supplied with small notes, its advantage to them is not obvious. They were not likely to withdraw notes with which their customers have been familiar for generations in order to make room for the "luggage labels." Even the certificates could be no great temptation to them, as their bank clearings require no artificial aids. But, in order to bring them all in and make the arrangement look completely national, they were granted the privilege of using the "luggage labels" as cover for their own notes. In the somewhat hazy language of the official explanation, "This arrangement has in practice the effect of enabling the Scottish and Irish banks of issue to exceed the normal limits of issue of fiduciary notes so long as such excess is covered by currency notes."

It may help the lay reader in wrestling with that cryptic passage to remind him that fiduciary notes are notes issued on trust without any metallic cover. The Scottish and Irish banks had large issues of that sort in 1844, and they were allowed to continue them. For any additional issues they had to put up pound for pound in gold. The Currency and Bank Notes Act of 1914 gives them the option of covering such excess either with gold or with currency notes. They will have sense enough, of course, to choose whichever material is cheaper at the time. If the interest chargeable by the Treasury for its currency note advances happens to be lower than the interest payable for gold, the "luggage labels" may be preferred, but so long as gold is cheaper, the canny Scots will stick to it.

In a financial crisis there is little time or opportunity for calm criticism. Still less is there in a double crisis like the present, when both military and financial chaos prevail. Whatever seems the best thing possible has to be done, and done quickly. Every emergency measure has to be regarded as an experiment made under exceptional and abnormal conditions. Common prudence, as

well as common fairness, demands that it should have every chance to achieve the desired result. In most cases success or failure will be declared in a comparatively short time. The late crisis produced an enormous crop of emergency experiments which, as a rule, were accepted meekly and even thankfully. There was very little looking in the mouth of the gift horse as one after another trotted out of the Treasury. Bill guarantees, war-risk insurances, currency notes, and Stock Exchange loans were all arranged with a scrape of the magical pen which some good fairy had bestowed on the Chancellor of the Exchequer.

But the fairy dream cannot last for ever. By and by we shall be discovering how much solid cash there is behind the guarantees and the various other creations of Treasury credit. It will then be possible to judge by results whether they were better remedies for the crisis than suspension of the Bank Act would have been. Of course, that alternative was not overlooked. The Chancellor of the Exchequer had it urged upon him not only at his conferences with City men, but by independent authorities as well. It was, in fact, the first measure that suggested itself to men who had had experience of previous crises. On the very day that the Stock Exchange closed (July 31), the Prime Minister was asked to receive a deputation of leading bankers on the subject, and he actually did receive them that evening at the House of Commons. They made a definite request that the Bank Act should be suspended, and he promised "to give it his closest consideration," along with the Chancellor of the Exchequer and his other colleagues.

Next morning the official announcement was made to which we have already referred (p. 87), namely, that after interviews between the Prime Minister, the Chancellor of the Exchequer, and representatives of the banks, it had been decided "that the situation is not at present such as to justify any emergency action in regard to the supply of legal tender currency, but in the event of further developments taking place necessitating Government action, the Treasury will be prepared to take such

action immediately." The bank holiday extension which occurred in the following week gave the Government and its City advisers five days more to come to a final decision. This was disclosed to the House of Commons on August 5 by the Chancellor of the Exchequer. His account of how the decision had been arrived at was neither very lucid nor very logical. He said :

"We have already taken steps in anticipation of a possible emergency to suspend the Bank Act—in order to enable the banks to secure a plentiful supply of notes. We came to the conclusion, after very careful consideration, and, I am proud to say, with the unanimous assent of every interest, that it was not necessary to suspend specie payments—that we were able to meet the emergency without in the slightest degree interfering with our present basis. But at the same time we thought it desirable to make arrangements with a view to economising the supply of gold."

To the present writer that last statement of the Chancellor of the Exchequer appealed strongly. It reminded him of efforts which he had made years before to get the banks to see the folly of piling up big gold reserves without adopting any safeguards to prevent them being drained off again. He had also advocated the economising of gold in use as a wiser policy than heaping it up at great expense both to the banks themselves and the trade of the nation. A few comparatively slight amendments in the Bank Charter Act of 1844 (which would be more correctly described as a Currency Act) would have obviated the incipient gold scare that occurred at certain joint-stock banks. Call it by whatever name we please—Mr. Lloyd George in his speech on the Currency Bill gave it a variety of them—there was the slightest beginning of a scare. Fortunately the banks overcame their nervousness in time, and it was nipped in the bud.

But if the Bank of England had been armed years ago with power to do legally what certain joint-stock banks tried on July 31 to do illegally, there would have been little or no trouble. If we had had the option, which has all along been possessed and freely exercised by the Bank

of France, the Imperial Bank of Germany, and other State banks, to refuse unreasonable or possibly ill-intended demands for gold, the great war might have been faced with much greater confidence. Once more, if the Bank had been relieved years ago from the absurd prohibition to issue notes of a smaller denomination than £5, England might have had an everyday currency quite as ample and as elastic as those of Scotland and Ireland. In these not unimportant or unintelligent parts of the United Kingdom there was no scarcity of currency either on July 31 or at any other period of the crisis.

The Currency and Bank Notes Act was a belated and clumsy remedy for a long-standing defect which was felt nowhere outside of England, and even in England was almost entirely confined to the City of London. Mr. Lloyd George graphically described its principal feature in these terms: "The difficulty has been, as everyone knows during the past few days, that your £5 notes are not convertible. You cannot induce anyone to take them; unless the bill is represented by £5 you get no change. The result has been undoubtedly a very great inconvenience to the public." The humorous part of it—which Mr. Lloyd George apparently did not see—was that the "great inconvenience" had been originally due, not to the war, but to the bankers, who were now blaming it on the war. Five-pound notes could not be changed in London simply because there were no £1 notes to change them into. They could be changed readily enough in Edinburgh or Dublin, notwithstanding the war and the alleged hoarding of gold.

When England is as well supplied as Scotland and Ireland are with paper money of the most necessary denominations, English banks will probably be as safe from gold scares as the Scottish and Irish banks have hitherto been. The defect was entirely mechanical, and half a dozen business men in the House of Commons might, if they had set their minds on it, have got it remedied in a few days. When the true situation is realised, it becomes amusing to read about these emergency makeshifts as if they had been momentous events, and the currency notes as if they were

the last word in banking science. On the contrary, they were only a stop-gap solution of an everyday problem which had long before been scientifically solved in other countries.

A great national bank of issue with no smaller note than £5 was an anachronism which should not have had to wait for a European war to get itself modernised. The first step toward that would have been to suspend the Bank Act—a very greatly misunderstood and misrepresented proceeding. It does not mean, as Mr. Lloyd George suggested in his speech on the Currency and Bank Notes Act, the suspension of specie payments. The Bank might continue to pay out gold as freely as ever of its own accord, but it would be relieved from the prohibition contained in the second clause of the Act to issue notes against securities beyond a certain amount, all further issues having to be covered by gold. If the Bank Act had been suspended on July 31 as the bankers' deputation to the Prime Minister strongly urged, in order to make the suspension effective the Bank should have been authorised to issue £1 and 10*s*. notes. Had it done so the new notes would have fitted themselves at once into our currency scheme, whereas the "luggage labels" are an excrescence, neither logical nor artistic.

As few people may have seen an official description of the new currency, and may therefore have rather hazy ideas regarding it, a copy of the public notice announcing its debut is appended. This was posted on the morning of August 7 at all the post offices in the United Kingdom:

NOTICE

Treasury £1 and 10*s*. Notes and all British Postal Orders are legal tender for all payments under authority of Act of Parliament.

They may be used and must be accepted for all purposes for which gold and silver coins are used.

Treasury Notes and British Postal Orders are payable in gold upon presentation at the Bank of England, but not elsewhere.

Though the fiction of their being gold notes is stoutly asserted, their essential feature is that they are "legal tender for all payments under authority of Act of Parliament." The phrase "must be accepted" gives them an unpleasant flavour of forced currency. One-pound and 10*s.* notes of the Bank of England would certainly have been a better form of emergency money. They would have relieved the deadlock quicker and more directly. After doing that they might by appropriate legislation have been permanently adopted into our monetary system, which the "luggage labels" have very little chance of being.

Whatever the merits or demerits of the currency notes may be, they leave unanswered one of the most vital questions of the crisis—whether the Bank of England should not in national emergencies be authorised to come at once to the relief of trade by issuing emergency notes with special cover other than gold. That is a very simple question to which in the long run there can be only one answer. It might, with great advantage to the country, have been given at the outbreak of the war. If certain bankers would not have Bank of England small notes the Treasury might have supplied them with a pattern of their own.

CHAPTER VII

THE MORATORIA

The world-wide network of modern commerce and finance rests on two fundamental principles: perfect good faith between man and man and punctuality in meeting engagements. It is these two conditions which render it possible for individuals and associations to undertake liabilities far in excess of their own actual resources. Not only so, but they render it safe for them to tie themselves down to exact dates. A trader whose visible and tangible property might not realise at auction more than a few hundred pounds, may with an easy conscience accept bills for tens of thousands. He may make them payable at a certain place on a certain day, and though there may be a long series of risks to run in the interval, he may with reasonable certainty assume that he will be able to meet them at the appointed time.

In undertaking such risks he has to exercise a large amount of trust in other people. The funds on which A relies for meeting his future engagements may have to be collected from B, C, D, E, and F, who in their turn are placing similar reliance on G, H, I, K, &c. "Scraps of paper"—not to be confounded with German neutrality guarantees—pass from hand to hand amongst the parties. So long as the circulating process goes on uninterruptedly, each of the future liabilities is met as it matures. Every one that is met and liquidated enables the next to be met. This, again, provides for a third, and the third paves the way for a fourth. While the circuit works smoothly and properly there can be no question as to its great value and convenience. *Per contra*, the danger of its being overstrained is equally apparent. A single default causes inconvenience to some one. Several happening together

may upset a whole community. An epidemic of them will produce a financial crisis.

If these credit operations were thought about and spoken of as they really are, they would be much less liable to go wrong. But an old-established banking fiction requires us to regard them as cash transactions. This is a mischievous and misleading delusion. They are only book payments, and the final settlement does not take place until some specific value passes—a commodity or a service, or a *quid pro quo* of some sort. Even gold is not a final settlement any more than paper is. It is simply symbolic. Though the symbol is almost universally recognised, and never fails under ordinary conditions, occasions arise—like the present one—when gold itself is paralysed as a medium of exchange. The charm which is so irresistible in sunshine refuses to work in stormy weather.

But the banking fiction that gold is the only absolute and universal value is bravely maintained even in the most difficult financial crisis. When emergency notes and other forms of credit have pushed it aside, it continues to be reverently spoken of as the world's ultimate money. In reality it would be much wiser to recognise its breakdown and frankly to adapt ourselves to the new conditions. Sound credit with substantial value behind it ought to be as good a foundation for national trade as the so-called precious metals, which owe their monetary virtues chiefly to legislative authority. But so confused has the popular mind become in the financial debacle caused by a series of destructive wars that it did not perceive the slipping away of our metallic basis.

One black morning we woke up to find ourselves floating along on a stream of Treasury bills and moratoria. The latter were novelties in British finance, but we soon got used to them—all the sooner when we perceived that most of our neighbours had taken a similar plunge from metal to paper. Within a week of the outbreak of war, three-fourths of the European nations were in a state of suspended payments. The method of suspension differed in various countries, but the practical

effect was the same, whether it was attained directly or indirectly. In our own case, the emergency was so strange and peculiar that the necessary measures to meet it had to be brought into operation by instalments. Elsewhere previous experience of moratoria enabled the Governments concerned to take the right and necessary action at once.

Of all the emergency experiments made in the first excitement of the financial crisis, the moratoria caused the largest amount of disturbance to business. As a natural consequence they provoked the greatest amount of discussion. They were an almost unprecedented incident in our commercial history, and at the same time a far-reaching financial revolution. For the first time since the Restoration the collection of current debts was interfered with. True, it was not a general suspension such as has been frequently resorted to by the South American republics. Large exceptions were made to it, and more were added as later experience proved them to be necessary. Government debts, including old-age pensions, were, of course, sacred. After them came wages, which might be taken to include the smaller class of salaries.

The dividing line between postponable and unpostponable payments was very difficult indeed to draw in practice, and only vague indications could be given of the principle on which it should be drawn. In the City the moratorium chiefly affected international obligations. Of these bills of exchange and bank acceptances were the principal group. When international trade and finance are in full swing, Lombard Street has tens of millions sterling of such paper to handle daily. There is no finer or more regular business when every channel is open and running smoothly. But cut away at a stroke the continent of Europe, and three-fourths of the circulating channels are closed. The whole pressure of the maturing bills and acceptances then falls on London. It could not be met at the moment, but by degrees it would be. The drawers and acceptors of the bills must have time to provide other means of meeting them than those which have suddenly failed them. The few days originally

granted in August were obviously inadequate. As the Chancellor of the Exchequer explained, they were intended only as a first instalment. An extension of time and an enlargement of scope were soon found necessary.

It was on the London banks, and the clearing banks in particular, that the chief responsibility for the practical operation of the relief measures devolved. After they had got over the first shock of the crisis and had agreed on a common course of action, they quickly recovered their nerves. The extreme measures which had been suggested and discussed at the beginning of the crisis were quickly dropped when found not to be necessary. One of them was an American idea—the issue of certificates to be used in settlement of Clearing House balances. This had the recommendation of being a purely domestic arrangement among the banks themselves which could not affect the public except very indirectly. But happily the need for it never arose, and Clearing House settlements never departed from their normal course.

An extract from the Chancellor of the Exchequer's speech deprecating the hoarding of gold and the drawing of more money from the banks than was actually needed for current expenditure had the honour of being printed in large type and posted conspicuously at banking counters. Apparently it had an immediate effect on the customers of the clearing banks, for it soon disappeared from them. But some of the country banks kept it up for months until it became dirty and fly-blown. The Scotch banks, with characteristic caution, supplemented the official warning with a stronger one of their own. It also remained up for months until most of the customers were letter perfect in it. Subjoined is the full text of this interesting document:

NOTICE

1. Customers of the Bank are reminded that only small sums of cash are actually required for ordinary purposes. Cheques should therefore be used for making payments to the utmost extent possible.

2. This is a

GREAT NATIONAL EMERGENCY.

The Banks are not in any way responsible for the financial situation which has arisen, but they have made arrangements which will be amply sufficient for meeting all reasonable needs.

3. Depositors are assured that their interests are absolutely protected. Under the Moratorium, the obligation of the Banks to pay deposits ceases for the time being, but they are anxious that their customers should be put in a position to meet all payments for necessary requirements.

4. The notes of the Scotch Banks are now legal tender throughout their branches in Scotland, the wish of the Government, as expressed by the Chancellor of the Exchequer, being that Gold should not be parted with merely to be hoarded. PATRIOTISM THEREFORE DEMANDS THAT ALL SHOULD JOIN IN STRENGTHENING THE HANDS OF THE BANKS AT THIS TIME OF NATIONAL TRIAL.

In all three kingdoms the public responded promptly and cheerfully to these banking appeals, and after the first alarm wore off, banking operations proceeded almost as smoothly and regularly as they had ever done. There was nothing that could be dignified by the name of a run on any bank, not even on a savings bank.

During the month of August, 1914, over a score of moratoria were in operation throughout the world. They were, in fact, the rule rather than the exception. The most lucid and precise of them all was, undoubtedly, that of France. It was promulgated by Presidential decree on the 10th August, and is a model of intelligibility. Its title indicated at once the scope it was intended to have: "Decree relating to the postponement of payments and to the withdrawal of cash deposits from the banks and credit establishments." Article I specified with equal clearness the first classes of negotiable securities which were to enjoy the benefit of deferred payment. They were: (1) Bills of exchange, (2) notes to order or to bearer, (3) cheques except those presented by the drawer himself, (4) postal or money orders and warrants.

Every such liability falling due between July 31 and September 1 was to be extended for thirty

days. Article II granted a similar postponement with regard to goods supplied between commercial people previous to August 4. Bank deposits were dealt with separately in Article IV. Depositors or creditors with not more than 250 francs at their credit might withdraw the whole amount. Those who exceeded that amount might draw 250 francs and then 5 per cent. of the remainder. Employers of labour might claim, in addition to the preceding allowances, the whole of the wages and salaries becoming due each pay day. As a check, however, on abuse of this right, they had to produce their pay sheets. Government contractors were granted a further favour. In addition to the sums necessary for wages, they might withdraw enough to cover expenditures on necessary materials. Companies officially authorised to protect the health of the army and navy were expressly exempted from all restrictions on their drawings.

Next day (August 11) a supplementary decree suspended until the cessation of hostilities "all prescriptions and limitations in civil, commercial, or administrative matters, and all time-limits allowed for serving, executing, or appealing against the decisions of the judicial or administrative courts." In this respect the French moratorium was much wider and farther reaching than our own, but, as already stated, its great merit was clearness. Any debtor of average intelligence should have been able on reading the decree to make out how it affected him. But no one would ever expect so much lucidity in a British royal proclamation, still less in a British Act of Parliament.

Nearly every sentence in our Postponement of Payments Act, 1914, and the proclamations issued under it, requires legal interpretation. Further confusion was caused by the moratorium being introduced piecemeal. The first instalment of it, issued on August 2, applied only to "certain bills of exchange other than a cheque or bill on demand." A second and enlarged version came out on August 6, which covered all payments with the exception of eleven minor classes specifically excluded.

That, at least, seemed to be the meaning of the following passage:

"Save as hereinafter provided, all payments which have become due and payable before the date of this proclamation, or which will become due and payable on any day before the beginning of the fourth day of September 1914, in respect of any bill of exchange (being a cheque or bill on demand) which was drawn before the beginning of the fourth day of August 1914, or in respect of any negotiable instrument (not being a bill of exchange) dated before that time, *or in respect of any contract made before that time*, shall be deemed to be due and payable on a day one calendar month after the day on which the payment originally became due and payable or on the fourth day of September 1914, whichever is the later date."

First of all, the Treasury, under the advice of its City counsellors, singled out for relief holders of bills of exchange "other than a cheque or bill on demand." Next, they expressly included cheques or bills on demand. Then they brought in "any negotiable instrument, not being a bill of exchange," and finally they made the relief practically universal by extending it to "any contract made before the said fourth day of August 1914." This general postponement covered all the preceding special ones and virtually superseded them. In the proclamation of September 2 extending the moratorium for another month the original confusion was to some extent remedied by a clearer definition of the subjects of postponed payment. They were said to be "any bill of exchange or any negotiable instrument or any other payment in pursuance of any contract." If something like this could have been said at first, the moratorium, notwithstanding its outlandish name, would have caused much less mental confusion and perplexity than it did. This was another example of the sort of thing they manage much better in France.

In the French Presidential decree there is no duplication or overlapping. No class of negotiable securities is singled out for preferential treatment. All of the four principal classes are taken together and treated alike.

In the plainest of language it is stated that "for all negotiable securities due from July 31, 1914, inclusive, or falling due before September 1, 1914, payment is postponed for thirty clear days." Another merit of the French decree is that, though much shorter and less confusing than the British series of proclamations, it has a wider scope. On the one hand, it attempts to regulate two classes of obligations which the British Treasury deemed it wiser to leave to private judgment. These were bank deposits and debts arising out of commercial transactions. On the other hand, its list of special exceptions is much shorter than ours. The principal difference between the two moratoria relates to bank deposits. We have seen that the French decree explicitly limits the rights of depositors and creditors to withdraw their money. But that would have been a dangerous course to take in the United Kingdom with its thousand millions sterling of bank deposits and current balances. It was much better left for the banks themselves to deal with.

Doubtless historical students have searched our commercial annals diligently for moratorium precedents and analogies. So far, however, no important discovery seems to have been made. But the writer has stumbled on one in a rather unexpected quarter. It carries us back to the national crisis of the Restoration. While General Monk was still silently planning the recall of the Stuarts, and the Rump Parliament was on tenterhooks as to his real designs, the City was also in a panicky state. It did not know whether to side with Monk or the Parliament. In this dilemma, which, of course, was ruinous for business, Parliament proclaimed a legal moratorium by the simple process of closing the Law Courts for three weeks. A proclamation to this effect was issued on Sunday, May 5, 1660, and the following is a literal transcript of it:

Die Sabbathi 5 Mai 1660

The Lords and Commons assembled in Parliament Do Declare that by reason of the Extraordinary and Important State of the Kingdom there will be no proceedings this next

Easter Term in the Ordinary Courts of Law or Equity at Westminster until Qunque Pasch being the twenty-eighth of this May. And that there will be no Tryals at the Barrs in Westminster in Easter Term. Of which the people in England and Wales are to take notice.

May 5, 1660.

Ordered by the Lords in Parliament Assembled That this declaration be forthwith printed and published.

Jo. Browne,
Cleric Parliamentorum.

That was one of the last acts of the Rump Parliament. Its successor—the Parliament which invited Charles the Second to return and take possession of his father's throne—was then being elected. It did not meet until May 25, three days before the legal moratorium expired. In such an agony of suspense, the citizens of London could not fail to be anxious about their outstanding accounts. There must have been some shrewd heads in the Rump Parliament, for the plan adopted to calm and reassure the City was the simplest that could have been thought of. Even the Americans could not have devised anything more effective and at the same time less alarming. It might have shortened the labours of the authors of our multitudinous emergency measures.

The various plans adopted in other countries for breaking the shock given to their credit systems by the sudden outbreak of a world war may be studied with great advantage both by practical and theoretical financiers. Next to the French form, the one of greatest interest for us is that of Russia, the third member of the "Triple Entente." On July 30 it was announced that in certain specified provinces and also in Poland, all legal protests and proceedings relating thereto were to be suspended for two months as from July 25. The Minister of Finance was, at the same time, empowered "to extend the above-named privileges" to other parts of the Empire. It appears to have been the districts bordering on the Black Sea and the Baltic, including the chief shipping ports, that first needed

relief. The inland provinces, which had little or no foreign trade to take care of, were able to hold out longer.

As a rule, the foreign trade of a country determined the character of its moratorium. Where it was large and foreign obligations proportionately considerable, the period of grace had to be longer than when it was small and the volume of foreign bills trifling. So also when a country which had enjoyed a large foreign trade was suddenly cut off from it as Germany has been by the war, it might have comparatively little need for a moratorium. It would have only its internal payments to keep up, and for these copious additions to the paper currency would serve equally well. The latter alternative has been frequently adopted on the Continent, Germany having set the example. One of her financiers boasted lately that she had required no moratorium, but as far as her foreign debts are concerned she has coolly acted as if she had one.

In some countries the Government has held aloof, and allowed the commercial interests to take care of themselves. Thus in Constantinople the international banks had to adopt a moratorium of their own. In other words, they suspended cash payments—with one honourable exception. War was no sooner declared than the Wiener Bank Verein and the Russian Bank stopped payments (August 1). The Deutsche Bank followed suit two days later (August 3). But the Imperial Ottoman Bank continued to make small payments up to £200. The Bulgarians, though perhaps greatly tempted to follow the cynical example of the Turks and throw the whole weight of the emergency on the local banks, adopted a more sweeping policy. The Government, taking on itself its proper responsibility, decreed a three months' moratorium right away. What the Servians did is hard to say. Their two previous wars must have greatly interfered with specie payments, and the new crisis would make them little worse than they were before. How they contrived to finance their latest war will be as interesting a question hereafter as how they succeeded

in rolling back the Austrian armies which were expected to annihilate them.

There were several cases not serious enough for a full-fledged moratorium in which half-measures were tried. Denmark distinguished between her foreign and domestic debts. The former, or at least those which had been contracted prior to August 1, were postponed until October 1—a period of two months. But domestic debtors who had difficulty in meeting their obligations did not get a complete respite. They were only allowed to apply for relief to a court of law, and it could, if it thought fit, give them not more than three months' grace. A similar solution of the crisis was adopted in Switzerland. No general moratorium was proclaimed, but debtors were granted the privilege of applying to the courts for protection on the ground that the extraordinary circumstances now existing rendered it impossible for them to meet their obligations. In Roumania also the non-payment of maturing bills had to be referred to the courts of law. Each case was to be decided on its own merits, *force majeure* being taken into account.

While the British moratorium was in operation, it was treated with surprising forbearance. The criticism it received in the public Press was, as a rule, kindly and indulgent. The Chambers of Commerce not only endorsed it, but took an immense amount of trouble to explain it to their members, and in other ways to facilitate its operation. The London Chamber excelled itself in the multitude of committee reports and circulars it devoted to the subject. All the provincial Chambers, from Southampton to Thurso, held long and earnest deliberations over it. Deputation after deputation waited on the Chancellor of the Exchequer to confer with him on its various developments. No legal experiment could have been more vigilantly watched, and it must be admitted that public opinion favoured it.

That may, however, have been because the public were not in a critical mood. They frankly accepted the assurance of the authors of the moratorium that without

it there would have been a financial panic as tremendous as the war itself. For the immediate relief it gave them they were duly thankful, and it was yet too early to think of the price they might ultimately have to pay for it. But now and then candid criticism did crop up. As some of it will be worth future consideration, one or two examples may be quoted. The *Morning Post* of September 4 contained a very sensible letter from Mr. Frank Morris which suggested that instead of complete postponement of debts gradual payment should have been provided for. A distinction should also have been drawn between unsecured debts, trade credits, &c., and secured debts like bankers' loans. The former class might have been made payable by 10 per cent. instalments spread over a reasonable period. The latter might have been allowed a much longer moratorium, but without any further help.

There is, said Mr. Morris, an influential body in favour of this course, and strongly adverse to any legislative bolstering up of individual interests at the expense of the community. It would enable the Stock Exchange to be reopened with one great fear removed—the sudden calling in of loans. Any further risk the members might provide against by mutual guarantee. On this point Mr. Morris may have been a little too sanguine, but actual experience has proved that the Stock Exchange might have fared better in the end with less Treasury tutelage.

A banking authority who admitted that the moratorium was unavoidable as a first step toward recovery, considered that the subsequent check to business which it entailed was a high price to pay for it.

"He pointed out that the extended Bank Holiday in the first place gave the requisite time for dealing with the currency question, which was of vital immediate importance, and the granting of the moratorium had been necessary to prevent chaos and enormous losses. But, while the moratorium filled that great need, it at the same time brought about a position which made it impossible for the large bulk of the trade of the country to continue. It was impossible to realise what

in ordinary circumstances would have been liquid assets in the form of bills, the discounting of which was necessary for the provision of working capital and the meeting of other obligations, while traders were also unable to draw new bills." [1]

Instead of attempting to pass a definite judgment of our own on the much-disputed policy of legally-postponed payments, we append a summary of the arguments pro and con which were to be actually heard at the time in business circles :

Arguments for the Moratorium

1. The suddenness with which the war broke out demanded instant action in order to avert panic and complete disorganisation of business arrangements.
2. The enormous liabilities of the joint-stock banks to the public justified the most drastic measures for their protection.
3. The danger of panic among depositors, both in the joint-stock banks and the savings banks had to be promptly guarded against.
4. The kindred danger of attempts to draw out gold from the banks and to hoard it, or, worse still, to export it, had to be circumvented, even at the risk of straining the law.
5. The foreign exchanges having become paralysed, the foreign bill market came to a dead stop and breathing time had to be given it to recover itself.
6. The Stock Exchange, though it afterwards proved its solvency as a whole, was at the mercy of certain huge debtors, who had to be prevented from hammering themselves, and thus precipitating a crash.
7. The position of the foreign banks in London caused further uncertainty and risk of complications.
8. As regards the German and Austrian banks, this danger was aggravated by the legal disabilities imposed on them as belligerents.
9. In the opinion of a majority of the financial authorities who were consulted, a panic was inevitable if strong measures were not at once taken to avert it. The Treasury adopted the same view, and acted upon it forthwith.
10. The Government had as much interest as the banks

[1] *Financial Times*, August 14, 1914.

and the commercial public in averting a panic at the commencement of the war. It would have grievously hampered our military operations, disheartened the people at the outset, and added enormously to the cost of our war loans

11. Seeing that the Treasury was willing and even eager to undertake exceptional risks in order to keep the trade of the country moving in its regular channels, the City could not hesitate to follow so courageous a lead. Bold action was the best policy in the circumstances. Though previous to the crisis there may have been lack of foresight all round, and better schemes than the moratorium might have been thought out beforehand, when the peril was on us there may have been no alternative.

Arguments against the Moratorium

1. It was almost unprecedented in British finance.

2. A bad example for Great Britain, the principal creditor nation in the world, to set to other nations, most of whom are debtor nations.

3. It was immediately followed by moratoria in other countries, which cut off more foreign debts due to us than we had debts payable abroad.

4. The two principal countries affected by our moratorium were the belligerents, Germany and Austria-Hungary, with which our financial relations would have been severed anyhow by the war.

5. Even after the moratorium had been proclaimed, separate arrangements had to be made for settling the claims and counter-claims pending between us and these two countries.

6. The moratorium of itself did very little toward restoring public confidence and restarting the wheels of industry. It had from time to time to be supplemented by other remedial interventions of the Treasury, such as guaranteeing all approved bills which had been accepted previous to August 4, 1914, and advancing money where necessary to enable the acceptors of such bills to take them up when due.

7. The benefits of the moratorium were very unequally distributed among the various classes of traders. In some cases it afforded great relief, and in others very little, while to some it was a positive disadvantage.

8. There was by no means universal agreement as to the

necessity of the measure. The banks which had been most eager to obtain it made little use of it when the first alarm was over. Some banks and exchange firms never availed themselves of it at all.

9. Very soon great diversity of action regarding it arose, and no one could say who was using it and who was not.

10. By being made general—with a few specific exceptions—it covered all sorts of current liabilities, good, bad, and indifferent. No individual tests were applied, and a good opportunity was lost of obtaining an approximate valuation of the amount of credit paper in circulation.

11. It prolonged the agony of the Stock Exchange, as no attempt could be made to reopen it while a moratorium was in operation.

12. It seriously interfered with interest and dividend payments, thereby causing great inconvenience, if not actual distress, among people dependent on income from investments.

CHAPTER VIII

LOMBARD STREET RELIEVED

In judging the successive measures adopted by the Treasury and the banks to meet the war crisis, it should be remembered that nothing had been foreseen or provided for in advance. The emergency had to be faced without a considered policy, and each new development had to be dealt with as it arose. In short, a series of hand-to-mouth experiments had to be made, each of which may be traced in the Orders in Council and royal proclamations issued almost daily. They began with the moratorium, and proceeded step by step until nearly every branch of industry and commerce had been brought under the tutelage of the State. Though possibly far from being ended, they have already effected a social as well as an industrial revolution.

Their first object had been to avert panic, maintain public confidence, and keep business going somehow. In all these respects they had at least psychological success. At no time was there anything approaching a panic in the sense of people losing their heads and starting a run on the banks or any kindred folly. The dominant feeling throughout was not commercial or financial alarm, but a sense of danger to the nation and the Empire. Men of all ranks were much more concerned about public affairs than about their own. Even in Throgmorton Street much more interest was taken in recruiting new armies for Lord Kitchener than in reopening the Stock Exchange. Everybody realised that until the foreign enemy had been effectively and finally crushed there could be no permanent remedy for domestic misfortunes.

But if we escaped a panic and consequent disaster, it was only by submitting to a variety of minor evils and

enduring them with patience and mutual forbearance. The chain of credit which keeps the commercial and financial world in motion had snapped at a number of vital points. Whole sections of our credit machinery had, as it were, to be stopped for repairs. Temporary substitutes had to be found for the broken links and stop-gaps for missing wheels had to be improvised. Business conditions of all sorts became abnormal, and how to bring them back to the normal was a many-sided problem, the most complicated perhaps that a modern community ever had to face. The preliminary adjustments were chiefly of a negative character. Maturing liabilities had to be postponed, legal rights and obligations had to be restricted, emergency currency had to be provided. But all these things could be done by royal proclamation as successive necessities arose.

The first demand for positive as distinguished from negative relief came from the bill market. Bills of exchange, variously estimated at 300 to 350 millions sterling, were maturing day by day, and had to be met in order to avert national bankruptcy. They had also to be kept in a liquid condition and available for current needs. The bill market itself, though it had the Bank of England and all the joint-stock banks behind it—they are, in fact, an integral part of Lombard Street—was unequal to the occasion. Only one kind of credit survived which was indisputable and unimpeachable—that of the British Treasury. It had perforce to be called in as a last resort. Any Chancellor of the Exchequer might well have shrunk from the alternative which Mr. Lloyd George had presented to him—the bankruptcy of Lombard Street or a Government guarantee for every bill of exchange which had been accepted previous to the declaration of war (August 4).

The Treasury again stepped boldly into the breach and agreed to another exceptional measure even more heroic than the moratorium. It authorised the Bank of England to discount "without recourse" (that is, at its own risk) all pre-moratorium bills, and it guaranteed the Bank against loss on the operation. To use a familiar

phrase, this was a big order—how big neither the Bank nor the bill brokers themselves knew at the time. In the event it proved a good deal bigger than any one had suspected, and restrictions had latterly to be imposed on the inrush of bills into Threadneedle Street. The terms of the notification issued by the Bank on August 12 were on the face of them rather comprehensive, and it is hardly to be wondered if they had subsequently to be qualified. Subjoined is the original version of them.

"The Bank of England are prepared, on the application of the holder of any approved bill of exchange accepted before the 4th day of August 1914, to discount at any time before its due date at Bank rate without recourse to such holder, and upon its maturity the Bank of England will, in order to assist the resumption of normal business operations, give the acceptor the opportunity until further notice of postponing payment, interest being payable in the meantime at 2 per cent. over Bank rate varying. Arrangements will be made to carry this scheme into effect so as to preserve all existing obligations. The Bank of England will be prepared for this purpose to approve such bills of exchange as are customarily discounted by them, and also good trade bills and the acceptances of such foreign and Colonial firms and bank agencies as are established in Great Britain."

Lombard Street was highly pleased with this generous arrangement, as it might well be. But it deprecated the idea that the Treasury would be running any great risk of loss under its wholesale guarantee. One banking authority hastened to assure the public that the bulk of the guaranteed bills were well secured either by documents or by first-class names :

"The bills which the Bank will be called upon to discount," he said, "were all drawn before the war broke out or there appeared any likelihood of unusual happenings. They are good bills, and a large proportion of them bear the names of the big joint-stock banks and first-class firms. The effect of the action now taken is to turn good bills which had become unusable into good realisable bills once again, and

there is no question that the obligations will be met by the banks and firms concerned when the time comes, so that there will be no loss with such paper. A number of bills are also drawn on valuable cargoes. Some of these cargoes for the time being may be held up in foreign ports owing to the war, or may be still on the way here, but there are very good prospects that these cargoes will eventually come to hand and provide the value for the bills . . . It is not a question as to whether the measure taken is the best way or not, but that it is the only way in which the trade of the country could be once again set moving."

In plain terms, there was no other way of saving Lombard Street from a general collapse. That would have involved a complete paralysis of the foreign exchanges, disorganisation of our foreign trade, increased difficulty in obtaining food supplies, and a possible breakdown in our home trade. These calamities had to be averted at any cost, but it was no small risk that the Treasury undertook in standing in the breach against them. At one time when bills were pouring in on the Bank of England faster than it could handle them, there was some fear that even its boundless credit might be overstrained. But after three feverish weeks the rush subsided. When the danger seemed to be over, the joint-stock banks resumed discounting on normal terms. Discrimination between pre-moratorium and post-moratorium bills practically ceased. The banks, having saved themselves and the bill brokers with the help of the Treasury, could now turn their attention to other victims of the crisis.

Wholesale rediscounting would have been a priceless boon even if the Bank of England had limited it to the fine bills which alone it is accustomed to discount. But it went much farther, and embraced also "good trade bills and the acceptances of such foreign and Colonial firms and bank agencies as are established in Great Britain." Practically the Bank lowered its standard from first-class to second, and even third-class bills. They poured in so rapidly that between the middle of August and the end of November 120 millions sterling of them had passed through the Bank. So much haste was there in some

quarters to dump the contents of bill cases on Threadneedle Street, that even large acceptors, who might have been expected to set a better example paid 5 or 5½ per cent. for rediscounts, the proceeds of which then glutted the money market to such an extent that 1½ per cent. call loans became an everyday incident.

It is doubtful if either Mr. Lloyd George or his expert advisers foresaw this strange result. They had rather calculated on the flood of credit released by the Bank of England's benevolent operations being forthwith employed in the creation of new commercial bills. To get business started again was their great hope and desire. The last thing that they had wished for was an abnormal accumulation of money in Threadneedle Street. There might easily have been a fresh crisis if the Chancellor of the Exchequer had not intervened once more as *deus ex machina*. This time he did not come as a saviour, but as a borrower. He was spending fully a million a day on the war, and he could do with a few millions of an advance on Treasury bills. The Bank of England and the Treasury suited each other admirably. The abnormal needs of the one fitted exactly into the abnormal resources of the other.

Between the middle of August and the beginning of November, six successive issues were made of Treasury bills —£15,000,000 each, or £90,000,000 in all. Thanks to the accumulation of unusable balances in the Bank of England, the bills were sold at an average of less than 3¾ per cent. If these accumulated balances had not existed, there might have been 1 per cent. more to pay for the Treasury bills. So, after all, there was something to set against the guaranteed discounts of the Bank of England. One per cent. on £90,000,000 would be £900,000, but as the bills had only six months to run, the real saving would be £450,000.

It is a far more difficult question how much the bill market gained by the Chancellor of the Exchequer's heroic intervention. Of course the effect on the Press and on a large section of the public was dramatic enough. It was hailed almost as ecstatically as the same Minister's

diplomatic conjuring with labour disputes used to be. But, as before, actual results fell considerably short of popular anticipations. Even Mr. Lloyd George could not perform the impossible. He could have any quantity of bills discounted under Treasury guarantee, but he could not force the favoured bill discounters to utilise the money as he wished by drawing fresh bills and using them to promote trade. If they preferred to keep it in the Bank of England or to invest it in war loans he could not prevent them. But, at all events, he won the fervid admiration and gratitude of the Ministerial Press. In their eyes he was once more the great financial miracle-worker. The *Daily News* of August 14, two days after the guaranteed discounting scheme had come into operation, assured its readers that:

"What appeared to be almost impossible has been achieved: the arrangements made by the Government for terminating the deadlock in the money market have already been successful. Even in these epoch-making days the change which came over the market can justly be described as remarkable. Not only did the discount market feel that it was 'on its feet' once again, but it actually resumed the transaction of business. Naturally the volume of business done was very small, but it is only a question of time before things will be shaped to conform to the actual industrial position of the country. In order to appreciate the importance of the Government's bold step, it must be understood the discount houses were able to liquefy their resources by sending in bills of exchange to the Bank of England, which hitherto did not accept such bills. The credit thus obtained enabled them to repay to lenders some of the money they had previously secured in the ordinary course of business, and with the balance to discount fresh bills in respect of additional trade transactions. What it really amounts to is that the machinery of credit, the basis of commerce and industry, has come into operation once more."

A more sober though still very optimistic view of the supposed miracle was taken by another ministerial organ, the *Westminster Gazette*. In its issue of August 13 it

thus described the scheme and foreshadowed the wonderful effects it was expected to produce:

"The breakdown in the foreign exchanges has been the all-important factor. Bankers have not been able to discount bills in the usual way. . . . The Government, it will be seen, has now agreed to guarantee the Bank of England from any loss it may incur in discounting bills of exchange, either home or foreign, bank or trade, accepted prior to August 4, 1914. The action thus taken will mean an almost immediate relief to the congestion in the bill market. It will free banks and discount houses for carrying on fresh business and for financing home trade. Business in bills has since the moratorium been practically at a standstill, for brokers have declined to make any quotations. Now, we should imagine business will assume a more normal aspect."

After a few weeks' experience of the guaranteed discounting scheme, faith in it fell considerably. It was found to have had rather one-sided effects. The bulk of the arrested credit released by it simply remained in the Bank of England, and even the half-dozen issues of Treasury bills, though very opportune, did not draw out a large proportion of it. A capable judge, the financial editor of the *London Chamber of Commerce Journal*, passed a qualified verdict upon it in the September issue of that periodical. "It is questionable," he said, "whether the Government's action in guaranteeing the Bank of England against losses in connection with pre-moratorium bills has had the full effect desired, for holders of paper, in sending it to the Bank of England for discount, have been largely actuated by a desire to escape their liability under the terms of the announcement, and there has been little recovery in discount business in the open market, though moderate transactions have been reported on the basis of from 5 to $5\frac{1}{2}$ per cent."

When that was written, City editors were reporting from day to day that dealings in the foreign exchanges were still of quite a nominal character. The greatest disappointment was in New York, where a most tan-

talising scarcity of sterling exchange had developed. The Treasury realised that further heroic measures were necessary, especially in view of the approaching end of the moratorium. A new series of conferences was held with bankers, members of accepting houses, and leading traders. They resulted in an arrangement with the Bank of England to provide the acceptors of pre-moratorium bills unable to meet them at maturity with the necessary funds. The Bank, of course, reserved the right of approval, and was generally understood to have exercised it freely. Subjoined are the main features of this second scheme of relief for Lombard Street. The first, it may be remembered, was published on August 12, and this one followed on September 4—three weeks later :

"(1) The Bank of England will provide where required acceptors with the funds necessary to pay all approved pre-moratorium bills at maturity. This course will release the drawers and endorsers of such bills from their liabilities as parties to these bills, but their liability under any agreement with the acceptors for payment or cover will be retained.

"(2) The acceptors will be under obligation to collect from their clients all the funds due to them as soon as possible, and to apply those funds to repayment of the advances made by the Bank of England. Interest will be charged upon these advances at 2 per cent. above the ruling bank rate.

"(3) The Bank of England undertakes not to claim repayment of any amounts not recovered by the acceptors from their clients for a period of one year after the close of the war. Until the end of this period the Bank of England's claim will rank after claims in respect of post-moratorium transactions.

"(4) In order to facilitate fresh business and the movement of produce and merchandise from and to all parts of the world the joint-stock banks have arranged, with the co-operation, if necessary, of the Bank of England and the Government, to advance to clients the amounts necessary to pay their acceptances at maturity where the funds have not been provided in due time by the clients of the acceptors. The acceptor would have to satisfy the joint-stock banks or the Bank of England both as to the nature of the trans-

action and as to the reason why the money is not forthcoming from the client. These advances would be on the same terms as regards interest as the pre-moratorium bill advances.

"The Government is now negotiating with a view to assisting the restoration of exchange between the United States of America and this country."

Thanks, no doubt, partly to the above arrangement, which virtually amounted to an extended moratorium of at least eighteen months, and possibly several years for a certain class of bills, the bill market made a fair amount of progress in the month of September. Other favourable influences were the brighter war prospects and better hopes of the stock, grain, and metal markets being speedily reopened. The *London Chamber of Commerce Journal*, in its October issue, reported that "business in bills has been and still is on a small scale, for although the demand is keen, the amount of paper now being made is limited, especially as regards grain and cotton bills." But a more favourable view was taken of the foreign bill market. The writer observed that "in the case of some of the foreign exchanges, dealings have been restored to a moderate extent, while in Throgmorton Street a regular though unofficial market has been in operation for some weeks. Considering the vast issues at stake in the conflict now in progress, the recovery has been highly satisfactory, but a full restoration of markets to their normal activity is neither to be expected nor desired."

There were various reasons why full restoration to normal activity could not be expected. Most of them have been more or less fully discussed, but one which does not lie on the surface has escaped attention. Such a large proportion of the industrial work of the country is now being done for Government account and so much less for private account that the output of bills of exchange is necessarily curtailed. Government departments have their own methods of payment quite apart from Lombard Street, and while they continue to be the principal customers of our staple industries, many former

sources of bills and acceptances will be cut off. Until new channels of trade are opened up and new demands for bills of exchange created, it is to be feared that Lombard Street will continue to suffer from a shortage of credit paper; but it does not necessarily follow that that is an unmitigated misfortune for the country.

CHAPTER IX

THE STOCK EXCHANGE LOANS

THOUGH not the largest problem which the Treasury and the City bankers had to tackle, that of the Stock Exchange was by far the most complicated. Discounting under a Treasury guarantee bills of exchange current at the outbreak of the war was a comparatively simple operation, although the parties to the agreement may have had very vague ideas of the total amount of such bills in circulation as well as of the percentage of them which might not run off satisfactorily. A large majority of the bills would be met when due, others would be good enough to renew, and the final residuum of bad ones would be small. Moreover, the worst would become known within a few months.

It was in every way different with the Stock Exchange. Here there was a whole series of unknown factors to deal with. Merely to discover them and to put them in their proper light required weeks of expert investigation. First, the outside liabilities of the House had to be ascertained and reckoned up. These were of various kinds—loans by the clearing banks from account to account, loans by non-clearing banks, private firms, discount companies, insurance companies, &c., loans inside the House between members, contangoes, and other special money bargains. These were taken in the order here given—the simplest ones first, and the more difficult ones in succession.

The bank loans, though they underwent the largest amount of discussion, and were for weeks considered to be the chief obstruction, gave, in fact, very little trouble. At an early stage of the negotiations the ruling bankers, in conference assembled, decided, as one of them put it,

"to behave like angels to their Stock Exchange customers." They would extend the end of July loans for the proposed period (a year after the close of the war) without asking for any additional margin or Government guarantee. This liberal action was all the more appreciated after the many rumours that had been circulated as to the obstructive demands of the clearing banks. For weeks it had been put about that a sharp conflict was going on between them and the Treasury as to guarantees and additional margins.

It turned out, however, that the clearing banks as a body had made no specific claim either on the Treasury or the Stock Exchange. Apparently it had been put to them that they owed the public a *quid pro quo* for the liberal advances that were being made to them under the new Currency Law. Be that as it may, it is clearly stated in the Treasury memorandum that "all banks to which currency facilities are open, whether clearing banks or not, have agreed not to press for repayment of such loans or require the deposit of further margin until after the expiry of a period of twelve months from the conclusion of peace or after the expiry of the Courts (Emergency Powers) Act, 1914, whichever shall happen first."

This cleared out of the way—for the time being—fully sixty millions sterling of Stock Exchange loans. But it left twenty or thirty millions unprovided for. The lenders in this case were the smaller banks—joint-stock and private—which had not availed themselves of advances under the Currency Law, also the discount companies, insurance companies, trust companies, money brokers, and private financiers. In the Treasury negotiations it was conceded that this mixed class of lenders had a claim to some equivalent for the currency note privilege which was being enjoyed by the clearing banks. The form it took was a guarantee of 60 per cent. against ultimate loss on their loans. In clause 3 of the Treasury memorandum it is thus defined :

"Subject to the following conditions the Government will arrange with the Bank of England to advance to lenders to

whom the scheme is applicable 60 per cent. of the value of the securities held by the lenders against any loans which they had outstanding on 29th July 1914, such securities to be valued for the purpose of the advance at the making-up prices of the 29th July settlement."

This second part of the scheme was also satisfactory to the Stock Exchange. In fact, it pleased all parties—borrowers, lenders, brokers, and jobbers. The banks had reasons of their own for approving of it. A large part of their loans to money brokers was re-lent in the House, and any additional security obtained by the money brokers indirectly benefited the banks. The latter had therefore a certain amount of Treasury guarantee through third parties. But after progressing smoothly and pleasantly so far the scheme struck a snag in the Committee-room. The worst part of the tangle was the loans made within the House in various forms peculiar to itself. So-called "money brokers" borrow large amounts from the banks, discount companies, and insurance companies which they relend to jobbers and brokers. The latter are seldom straight loans at a flat rate of interest. They are generally put through as a nominal sale and purchase. The broker or jobber who has stock to take up, which he cannot pay for, asks the money broker to "take it in for him." The money broker buys it for cash, takes delivery, and pays for it. At the same time he sells it to the broker or jobber for next account, say a fortnight hence, and charges a "contango" or continuation rate in lieu of interest. To the lay reader this may seem an unnecessarily roundabout way of borrowing and lending, but there are reasons for it, and it has practical advantages as well.

In the first place, it admits of a large amount of borrowing without a margin. Banks will only lend up to 70 or 80 per cent. of the official making-up price, but a money broker will advance the full 100 per cent. For the extra higher risk he charges a somewhat higher rate of interest than the banks do, and he has besides a special safeguard not open to the banks. The making-up prices vary at every settlement, sometimes in favour of the borrower

and sometimes against him. When they are lower he has to pay to the money broker the difference between the new price and the last preceding one. At every settlement the fictitious buying for cash and selling for new account is repeated, and the broker gets a small commission on them from his client in addition to the contango.

When differences are punctually paid on each side the arrangement works out so that the loan and the making-up price are identical. In ordinary circumstances the whole of the risk borne by the money broker (technically known as the "taker in") is the fluctuation which may occur during the fortnightly account. On investment securities that should not average more than a point or two. There would be something abnormal if it rose to five points. A slump or a jump of ten points in a single fortnight happens only to very gaseous stocks. When there is any danger of it the lender on such stocks can at once protect himself by buying or selling, as the case may be, for next settlement. He cannot call in his loans until then, but at any moment he can hedge against them and reduce his risk to a very inconsiderable amount.

By what appears to the outsider a very artificial and circuitous process an enormous volume of lending can be done on the contango system without any margin, and yet with very little risk. It is the most fluid kind of money-lending imaginable, and can be carried on with the least possible degree of trouble. Not a single document need pass between borrower and lender. The bargains are all arranged verbally on the carry-over day. Either party may then inform the other that he is "not going on" with such and such a stock, and on the following pay-day the transaction has to be settled. This is generally done by finding either a new borrower or a new lender to take the place of the outgoing one.

Here the reader should particularly note that the method of borrowing above described is, in normal conditions, perfectly good and safe business. "Money brokers" are important members of the House, who require to have a large capital of their own and to possess, in addition, the complete confidence of the banks

they deal with. Some of them have bank loans running into millions, and they could have borne big losses without turning a hair. But the universal collapse at the end of July was too much for them. It is not an uncommon experience for them to be badly caught in a single stock, or even in a particular market, but universal paralysis was more than the most cautious of them could have provided against.

The "contango problem," as it was called, proved to be not only the hardest to solve, but the most controversial and vexatious. It produced a large amount of friction and not a few "emergency regulations," many of which, instead of overcoming emergencies, created fresh ones. Up to this point the loan question had been easily controlled by the Treasury. With the whip-hand which it had over the clearing banks through the Currency Act and the guaranteed bill-discounting plan it could induce them to be considerate to their Stock Exchange debtors. The other loan-mongers were only too pleased to accept the 60 per cent. guarantee offered them. But when it came to "contango loans"—in other words, loans between members for the coming account, the Stock Exchange Committee got into a sea of difficulties and appears to have dragged the Treasury along with them.

Even on fundamental points like the legal character of "contangoes," which it might have been thought had been placed beyond doubt by generations of well-understood custom, diametrically opposite views were advanced. In popular language, "contangoes" are the considerations paid for carrying over into the next account stocks which are not taken up and paid for at a fortnightly settlement. As already explained, they are usually put through in the form of a cross bargain—that is, the "giver" sells to the "taker in" for cash, and the "taker in" sells the same stock back to the "giver" for new account plus a contango, which may be either a specific rate or so much per cent. of interest on the money value of the stock at the making-up price of the day. In this case a good deal hangs on the question whether contangoes should be treated as money loans or cross bargains.

Such is the gist of the great "contango" question. Not only were millions of money at stake on it, but the multitude of contangoes was enormous, and every one of them involved two, three, or more persons. For instance, A has to take up a certain stock at next settlement, say 1000 Canadian Pacifics. At the end of July they were made up at 176, and during the interregnum they dropped to 155. A may have sold them to B, who may have sold them to C, and so on through a long "trace," as it is called. If A cannot take them up and pay for them, B has to be called upon to do it, and if B cannot, then C has to be applied to. Any one taking them up when the price was 155 would have to pay for them at the making-up price of the end of July, namely, 176, twenty-one points above their actual market value. On the 1000 shares that would mean a wastage of £4200.

Suppose another case—that A takes them up, but B cannot. Then A is stuck with them for an indefinite period. Or B may take them up and C cannot. Somewhere on the line of the "trace" there is pretty sure to be a lame duck who cannot answer the call when his turn comes. But these are all domestic complications, and only the beginning of the muddle. The foreign complications are still more perplexing. C may be a broker who has been dealing largely for Berlin or Hamburg or Frankfort. His German clients cannot pay even if they would, but in any case they may have conscientious objections. They block the channel of liquidation. Or there may be American difficulties. Even domestic clients are not wholly free from responsibility for the deadlock. But fortunately they are within reach of the long arm of the law when it is not shackled by moratoria.

Apart from the huge loans of the money brokers, the Stock Exchange position was not particularly critical. Great losses had been sustained in consequence of the immense depreciations of the preceding two years, but they were spread over nearly five thousand members, most of whom were still able to bear them or to obtain assistance to carry them through. On the basis even of

recent panic prices they were solvent provided they could get a normal market to liquidate upon. That was the urgent need of the hour, and the policy adopted by the Stock Exchange Committee under the tutelage of the Treasury and the clearing banks has to be judged by the success with which it was met.

It is now a well-understood maxim in banking that the best way to get over a panic is to supply fresh credit as liberally as possible. "Business as usual" is, or should be, the banking motto. It could not have been at once fully applied to the Stock Exchange, as there were special risks to be considered, but it might have been tried in spirit. There was a large body of Stock Exchange business outside of the war zone which might have been safely continued without many restrictions. But the Treasury and the Stock Exchange Committee went on the opposite tack, and, instead of trying to restore the stock market by degrees, they treated it as a national danger, to be vigilantly watched and kept under restraint. The dominant idea of the Committee was to look ahead for possible dangers and to sound an alarm against them. Every day new restrictions and prohibitions were issued, until at last wall space could hardly be found for them.

In fairness to the Stock Exchange Committee, it must be admitted that many of their emergency regulations were absolutely necessary. They were called for by difficulties arising from time to time out of the peculiar methods and customs of the House. The monthly and fortnightly settlements which have descended from its earliest days proved, strange to say, a cause of great embarrassment. During the critical period when settlements could not be faced, they had to be repeatedly adjourned, and every adjournment necessitated a multitude of incidental changes and new arrangements. Before the House was closed, account days had been appointed for months ahead, and all of these had to be two or three times postponed.

The New York Stock Exchange escaped all these harassing rearrangements through having no periodical

settlements. Its bargains have to be completed day by day, or rather on the following day. Stock bought on Monday has to be taken up and paid for by a certain hour on Tuesday. To this extent business is all on a cash basis, but it may be none the less speculative, as money to pay for the stock can be obtained at a moment's notice. The delivery of stock and the borrowing on it are done at the same time and in the same room. This system of flat loans is, of course, much simpler and more direct than our contango method. On the other hand, it is less convenient for the small dealer and the average broker. Candour also requires us to add that it would eliminate a few old-fashioned " turns " and extras.

During the close season the New York Stock Exchange had, in consequence of its simpler methods of settlement, a much easier task in some respects than that of the London Committee. Deliveries of stock and payments could go on much the same as before. A Committee of Five was appointed, with absolute power not only to make emergency rules, but to see them carried out. They started with a complete suspension of business, and then granted partial resumptions as the market recovered and could be trusted with a freer hand. In this way the embargo was gradually removed, and within six months Wall Street was again on a normal footing. Naturally it has plumed itself a little on this achievement, and the New York *Financial Chronicle* was particularly effusive in its congratulations. In its issue of December 19, 1914, it said :

"The success attending the reopening of the New York Stock Exchange is evidence at once of the improved sentiment which exists in the financial world and of the careful and cautious way in which the step was taken. Since the suspension of dealings on July 31 the Stock Exchange authorities have acted with great wisdom. They were confronted with a trying situation—a situation which has had no parallel in the world's history. All the leading countries of the Old World had engaged in war, with the result that facilities of trade and all monetary processes had become disorganised and disrupted. A complete readjustment to the new order

of things was necessary before the Stock Exchange could with safety resume its accustomed functions. The Stock Exchange authorities awaited the completion of this adjustment."

An interesting retrospect is then given of the various stages through which Wall Street advanced to complete resumption :

"When the Stock Exchange at the end of July suspended its functions a state of panic prevailed. It was incumbent upon those acting for the Exchange to see to it that panic did not prevail when the Exchange was reopened, and that no new state of panic should be precipitated by any action of the Exchange. How well the Stock Exchange authorities have succeeded in the undertaking the course of the stock market this week is striking evidence. The policy has been to proceed step by step, and to take no new forward movement until the previous movement had amply justified itself. On November 28 the Exchange was opened to public dealings in bonds under certain restrictions and limitations. Last Saturday, just two weeks later, it was opened to public trading in stocks, also subject to definite restrictions and limitations. But the Stock Exchange was not thrown open to the entire range of stocks listed. As a precautionary measure, certain stocks of an international character were not admitted to open trading. . . . Saturday's and Monday's experience, however, showed that the entire list of stocks could be safely admitted to public trading, and accordingly the announcement came on Monday afternoon that, beginning with Tuesday, there would no longer be any excluded class, but that dealings might be carried on in the whole list of stocks."

A striking contrast between the experiences of London and New York is shown in the following tribute of the *Financial Chronicle* to the loyalty and patience with which Wall Street men had sacrificed their own immediate interests to the public safety. Special note should be made of the final sentence in the next extract, which claims for the brokers generous treatment by their bankers :

"Owing to the enormous volumes of loans outstanding on stock and bond collateral, the whole banking situation would

have been jeopardised by the premature opening of the Exchange and the precipitation of a new decline in values. Possibly the Exchange might have been opened somewhat earlier without actual danger, but it was impossible to take the risk in view of the grave consequences which a mistake on that point might involve. Through it all Exchange members were careful not to urge their Committee to precipitate action, notwithstanding the enormous pecuniary losses to which they were being subjected so long as the functions of the Stock Exchange were suspended. They were willing to continue their sacrifices to the end, so that the banking situation might be saved. All honour to these men! Credit should be given unstintedly to them for the part they have played in the great work of restoration, which is now nearly accomplished."

One reason for the greater smoothness and speed with which the restoration of Wall Street was effected has been already given—namely, its simpler and more up-to-date machinery of settlement. Another and more important one has now to be added. It was the different spirit in which the two operations were conducted. Wall Street was allowed to reorganise itself. Its Committee of Five had only the stock market to consider, and their one duty was to set it as speedily as possible on its feet again. They had not to guard it against war risks or enemy aliens or other political dangers. All its operations and arrangements had to be regarded primarily from the stock market point of view, and not, as in London, from the point of view of the Treasury and the banks.

In our own case the problem was treated as one of loans and indebtedness. All who had lent money to the Stock Exchange were first considered. Outside lenders—apart from the clearing banks, which are magnanimously allowing their loans to run on at double the rates they charge to "guaranteed" bill brokers—have got a Treasury guarantee for 60 per cent. of their advances. But for the poor jobber and the starving broker—showers of emergency regulations, minimum prices, and forms to fill up! Those who talk loosely of Stock Exchange reliefs

and guarantees should understand that no member of the Stock Exchange as such is obtaining a pennyworth of benefit from the Government. It is only his creditors that have been taken care of, and in one or two instances he was seriously jeopardised for their protection.

One of these cases was the application of the moratorium to Stock Exchange liabilities. As a general rule, August 4 was made the starting-point of the moratorium, and that could have been done quite as easily in the Stock Exchange as in other lines of business. But for some inscrutable reason an arbitrary and unexpected exception was made with it. Instead of trying to ascertain its position at the latest possible date before the moratorium took effect, which would have been July 31, the day that the House closed, it was decided by the Committee, with the sanction of the Treasury, to adopt the latest fortnightly carry-over day as the dividing line between the old and the new regimes. This took place on July 27, and by drawing the moratorium line there, the whole of the transactions of the succeeding four days (July 27–30) were shut out.

It would have been an easy matter, and would have saved an enormous amount of confusion afterwards, had a special settlement been made as at July 31. All the bargains outstanding when the House closed could then have been cleared. The actual amount of the differences to be settled would have duly appeared. A complete return of the loans held from the clearing banks, non-clearing banks, and other outside lenders could have been obtained. In short, the exact position of the Stock Exchange could have been ascertained early in August with much less trouble than was caused by the imperfect return that had to be got several weeks later. The ultimate effect of ruling off all Stock Exchange accounts on July 27—a week before the moratorium came into operation—was that three different classes of liabilities were created in this bewildered market—first, the loans and contangoes existing at the end of July carry over; next, the differences on bargains executed between July 27 and 31; and third, the cash bargains

entered into in Throgmorton Street while the House was closed.

Each of these three sets of liabilities had to be settled in a different way. The first was tied up for the period of the war and twelve months thereafter. The second was hung up until November 18, when it had to be settled by itself. This was the climax of the long drawn-out agony. The effect of arbitrarily separating the bargains of July 27–31 from the contangoes of July 27 was that men who had "taken in" stock on the 27th (lent money on it or been bears of it) and had bought it back between the 27th and 30th found that instead of closing an old position they had created a new one. Under the emergency regulations passed by the Committee they had to continue all their sales of July 27 until twelve months after the war. On the other hand, they had to take up and pay for the later purchases, which, if set off against the preceding sales, would have left all the parties clear of each other. In short, duplication was substituted for liquidation. Where the amounts ran, as they often did, into tens of thousands, it would not have been an easy task at the best of times, but in the thick of a war crisis it was practically impossible.

Such treatment was in the very mildest case unfair and needlessly harassing, but in many instances it threatened ruin to perfectly innocent victims. Suppose a broker had taken in stock on behalf of a client on July 27, and next day had closed it at his request and sent him his sold notes, the transaction between him and his client was finished. When the Stock Exchange Committee afterwards ruled that the contangoes of July 27 must stand over, while the bargains of the succeeding four days must be settled by themselves, the broker could not ask his client to accept that very awkward and circuitous arrangement. There was nothing further between them either in law or in fact. The broker would consequently have to take both liabilities on his own shoulders. He would have to assume the risk of the moratorium bargain of July 27 and to find money to pay for the subsequent purchase which was treated as a new bargain.

It has been a subject of much conjecture what could have inspired the action of the Stock Exchange Committee in introducing so many complications into the already bad enough situation which resulted from the closing of the House. Many theories, political and otherwise, have been suggested by way of explanation. It was said by friends of the Government that they hoped thereby to intercept some of the large amounts of stock, American and Japanese especially, which had been sold from Germany previous to the Kaiser's declaration of war. There was also talk about a huge bear account which held out hopes of a bear squeeze—an irresistible temptation to political pharisees. But huge bear accounts seldom materialise, and for a good natural reason. There is always a point where bear selling becomes dangerous for the bear.

CHAPTER X

THE FOREIGN FINANCIAL INVASION CHECKED

THE chief distinction of modern war is the financial complication which attends it and which is always growing more complex. This is an advantage and a disadvantage. It enlarges the area of damage done and of personal suffering. So far we may agree with Mr. Norman Angell's contention that the financial interdependence of nations ought to act as a check on war. But he has overlooked the counter-advantage which it confers. The complex financial machinery which modern war calls into play gives it a wider resisting surface, greater power to withstand a shock, and many more facilities to adapt itself to war conditions.

The most valuable gift of self-adaptation to abnormal circumstances is that of liquefying the national resources and preparing them to meet all the emergency calls that may be made on them. Every belligerent nation does this in its own fashion, and it is curious to observe among the present belligerents how many different ways there may be of doing it. They adopt different methods of protecting their currency, of collecting foreign debts which may be owing to them, of realising their negotiable securities, of readjusting their banking operations, of meeting their foreign obligations, and so on. In order to liquefy they must liquidate. As between the belligerents there may be countless rearrangements to make—commercial and financial; also many broken links to repair.

When Germany declared war on the Triple Entente—for that was the real meaning of the Kaiser's ultimatum to Russia—she was exchanging imports with the three countries forming the Entente to the value of about

£150,000,000 per annum, and exports to the value of fully £130,000,000. An international trade of £280,000,000 per year, or about £750,000 per day, was passing between them. When this was stopped by the Kaiser touching a button, there must have been many millions of unsettled balances pending. In the primitive days when modern banking was yet unborn, all these unsettled balances would have been hung up until the end of the war, but nowadays no kind of business can be absolutely hung up. Parliaments and Cabinets, politicians and Secretaries of State may try their hardest, but international bankers are too clever and too ubiquitous for them.

A very considerable liquidation of trading balances has doubtless been effected by the belligerents, and by Germany especially, since the war began. It is still safer to say that a good deal of international banking has been carried on between them *sub rosa*. It would be difficult to believe that all the high financiers, with their world-wide syndicates and consortiums, had been entirely quiescent. In spite of emergency regulations and Treasury restrictions on the Stock Exchange, thousands of shares and bonds must have escaped from Germany *via* Holland or Italy or some other neutral country. Whether they got to Paris or to London or to New York, the Germans managed to convert them into much-needed money or war materials. When the history of these surreptitious liquidations is disclosed it will, we believe, be found that a comparatively small share of them was effected in London. Amsterdam and New York were the natural centres for them, and anything that came over here could be much more easily and safely negotiated outside than in the Stock Exchange.

In addition to trading balances and stock operations, there would be large loan transactions pending between the belligerent countries when they went to war with each other. Berlin was a chronic borrower from Paris, and although her loans had been greatly curtailed after the Morocco crisis, there might still have been a large amount of French money in the German banks in July 1914. In London the Germans also held a special posi-

tion. Thanks to the apathetic insularity of the British bankers of twenty years ago, our foreign exchange business passed largely into French and German hands. They made this a starting-point for a general invasion of our staple markets. The Germans, with their tortuous persistence, wormed their way into the Baltic, the Metal Exchange, Mincing Lane, and other institutions popularly supposed to be peculiarly English. Their latest feat was to capture the metal market, including copper, the most important metal of all for military purposes. It must have wrung the hearts of the German Ring when copper was made absolute contraband. With the large stocks they carried they might not only have supplied Germany, but made huge profits at the same time.

The most phlegmatic of Britons might be amazed if they knew to what an extent foreign banks, and especially German banks, had interpenetrated the City before the war pulled them up. Not only had they secured almost a monopoly of the business with their respective countries, but they were invading the proper sphere of the London banks. They had got a strong footing in our stock market, and were active dealers in foreign exchange. In high finance they made very successful use of their continental consortiums and other alliances. They were systematically pushing us out of our domestic trade and banking. They financed German importers, traders, and speculators. They had got control of important foreign railways and industrial enterprises. In Wall Street they were almost as powerful as in London. For themselves and their clients they held vast numbers of American stocks, and were active dealers in them. They took a hand in promotions, reorganisations, underwriting, and the multifarious operations of up-to-date banking. Very few fields of industry or finance were outside of their range.

This inconvenient zeal on their part was beginning to tell on the London banks when it was suddenly checked by the war. The London banks, we believe, may be trusted to see that it is not renewed in a hurry or without resistance. The fortune of war will have given them a

rare opportunity to clip the wings of the foreign invaders. The Deutsche Bank in particular will come out of the conflict considerably shorn. The annihilation of German influence at Constantinople and in Asia Minor is likely to deprive it of its lucrative control over the Anatolian Railway. Its progress eastward toward Bagdad will be permanently checked. Its dream of spreading the latest German "Kultur" on the shores of the Persian Gulf will be exploded.

One of the most curious episodes of the financial crisis was the liquidation of the German and Austrian banks in London. The three principal ones were the Deutsche Bank, the Dresdner Bank, and the Diskonto Gesellschaft. In strict law they ought to have been closed immediately after the outbreak of war. The extra bank holidays, which extended over nearly the whole of the first week of August, allowed the Government time to decide what should be done with them. In the end they and the two Austrian banks in London obtained royal licences to reopen for the purpose of winding up their local business. This was not so difficult as had been apprehended, and in course of a few weeks the liquidators were able to announce that all local liabilities had been paid off.

No official reports have yet been published, and may not be for a long time, if ever. But we have the annual reports of the banks themselves down to the end of 1913, and from these valuable information can be obtained as to the general character of their operations and their financial position. The items of immediate interest in their balance sheets are the acceptances and bills payable in circulation. All three of them run into large totals. On December 31, 1913, they were:

Deutsche Bank	£14,203,940
Dresdner Bank	14,365,770
Diskonto Gesellschaft . . .	12,547,050
	£41,116,760

By way of illustrating the magnitude of these transactions, we may compare them with the corresponding

totals of the London clearing banks. The latter, according to their monthly statements for July 1914, had 34 millions sterling of acceptances and similar paper in circulation. Whether that amount be considered large or small, the German totals are certainly excessive in comparison. It is a fair question if that excess has not been one of the main causes of the existing deadlock, or, at all events, an aggravation of it. If so, English traders and investors are paying the penalty of German exploiting.

Another point to be seriously considered for our future guidance is whether foreign banks should have the free run of Lombard Street to such an extent as these German institutions must have had in order to get out the great volume of paper they had afloat at the end of 1913. It is not suggested that the whole of the above 41 millions sterling of "acceptances, &c.," was located in London. A good deal of it would be in Germany, and some perhaps in New York, but it is notorious that London is the principal market for such wares. Even if only one-half of the 41 millions were here, that would be relatively a much larger proportion than the London clearing banks allow themselves. Why should foreign banks, and German banks in particular, have been encouraged to exploit Lombard Street so much more lavishly than any of our own banks has ventured to do? Not a single clearing bank appears to carry half as many acceptances as the Deutsche and the Dresdner Banks had on their books on the eve of the war. The nearest approach to them was the London City and Midland's £6,941,000, the London County and Westminster's £6,679,000, and the Union of London's £5,130,000. The other eight clearing banks do comparatively little accepting, and in three cases—the National Provincial, the London and South-Western, and Williams, Deacon, & Co.—the amounts are insignificant, all of them being under a million sterling.

Now that the operations of the three German banks in London have been brought to a close, it may be possible to obtain some light on the unusual amounts of paper they appear to have floated. The Deutsche Bank is careful in the English version of its report to veil them

under the innocent-looking name of "Bills Payable," though in the original German they are more correctly described as "Akzepte im umlauf." In the German version there is another item of importance which is more clearly stated than in the English translation. Immediately after the item "Akzepte im umlauf" there is a parenthesis, "Ausser dem bürgschaften M142,300,710." In the English balance sheet this entry shrinks into a footnote in small type, "contingent liability on guarantees given on account of customers, £7,115,035." The acceptances and guarantees combined exceed 21 millions sterling. Both have no doubt been seriously affected by the war crisis, and may be still more affected hereafter.

Not alone as regards acceptances, but on various other grounds the banking system which the Germans have been allowed to build up in our midst requires to be closely scrutinised now that we have a good opportunity of doing so. The volume of deposits for which it has made itself responsible challenges comparison with those of all but the largest London banks:

	Deposits and Current Balances.
Deutsche Bank	£79,002,290
Dresdner Bank	47,919,785
Diskonto Gesellschaft	33,701,199
	£160,623,274

The average of the three is thus well over 53 millions sterling, which is very close on the average of the eleven London banks publishing monthly statements. In July 1914 their aggregate deposits were 603 millions, or an average of about 55 millions each. Only three London banks exceeded the deposits of the Deutsche, namely, Lloyds, the London City and Midland, and the London County and Westminster. Though only a small proportion of the German deposits may have been employed in London, it evidently sufficed to capture a large amount of business. When that was suddenly stopped and three great banks ceased to do their share of banking work, the

extra strain thrown on the others must have considerably aggravated the crisis.

Once more it is necessary to emphasize the rapid growth of international competition. Before the war it had become very strenuous in the Stock Exchange, as well as in Lombard Street. Though it was most obvious in connection with credit paper and securities, it applied in a smaller degree to foreign trade. In all branches of international business there had for several years previously been abnormal activity. Anglo-German trade in particular had not only expanded, but had become more and more varied. Anglo-German finance has been equally progressive. At first sight these all appeared to be very satisfactory developments. They were even lauded by our economic optimists as proofs of national prosperity. But they had one defect which the war crisis brought into startling prominence. The leaders of the movement were much more frequently German than English.

While Berlin vigorously and systematically exploited London, there was little or no counter-activity of London in Berlin. German and other foreign banks had established themselves firmly in the City for years before the City even thought of reprisals abroad. British banks were just waking up to the danger of foreign, and especially continental, competition when the storm broke over their heads. Then they were surprised, not to say staggered, at the strength of the hold which our foreign rivals had acquired over nearly all branches of our trade and finance. Though Germany was the most formidable of our financial invaders, several others were not far behind her. A number of Paris banks established very profitable agencies in the City, devoting their attention chiefly to Stock Exchange business. Vienna, Brussels, and Amsterdam also utilised to the utmost the superior facilities which our money and stock markets offered them. International rivalry in credit-creating became almost as keen as the race of armaments.

Fully a dozen years ago this feverish condition of the banking world, due to the growth of foreign banking in our midst, began to excite remark. The writer in com-

menting on current events had frequent occasion to refer to it. In 1901 it seemed to him to be sufficiently important to form the text of a special article. This appeared in the *Banker's Magazine* for March of that year, under the title of "Lombard Street under Foreign Control." It may not have been without effect in helping to awaken London bankers to the comparative neglect of foreign exchange which had hitherto prevailed among them. A few years later two or three of the largest joint-stock banks started foreign departments, and their example has since been generally followed. The article in question opened with a rapid sketch of the transformation in British banking conditions since the Act of 1844 was passed:

"The latter half of the nineteenth century witnessed so many changes in the banking situation, home and foreign, that the beginning of the new century finds us almost in a new banking world. A silent revolution has been going on in the Money Market ever since the passing of the Bank Act of 1844. Nor can we hope that these changes are at an end. They are proceeding rapidly now, and it looks as if the opening decades of the twentieth century would be characterised by revolutionary movements of the most sweeping kind, not only in banking, but in financial and commercial methods generally. Remarkable developments may be impending in international trade, using that term in its widest and most comprehensive sense. The industrial struggle hitherto localised is about to take a world-wide sweep. Tariff wars are to become fiercer than ever, and the fiscal theories of a past generation are to be scattered to the winds. Capital is to be concentrated in the hands of grasping millionaires, who may play with the Money Market as they please and fix their own bank rates."

It was frankly admitted that the exceptionally strong and commanding position which London held in 1844 could not be maintained without challenge from abroad and important modifications at home. Very little financial foresight was then needed to anticipate some of the principal changes that have been following each other rapidly in the past few years:

"In 1844 there was but one recognised money centre in the world—namely, London. As such it had no rival worth taking into account. London financed by far the greater part of the commercial world. It was the international clearing-house for bankers. In its bill market every kind of foreign paper could be bought and sold to the best advantage. Here money could be raised on the lowest terms and most profitably employed. British Funds were the cream of investments. British manufactures were the most saleable everywhere, and British ships sailed on every sea. British contractors built railways on the Continent, in the Colonies, and in all parts of America. British capital levied universal tribute. Of international trade, shipping, and finance, it had almost a monopoly. How such a lopsided arrangement could have arisen it is hard to conceive, but there it was, and it lasted for nearly two generations. Naturally it could not be permanent. Sooner or later foreign nations were bound to emancipate themselves from British leading strings. Perhaps the emancipation has come sooner than we expected, and has taken most of us by surprise. It may be making more rapid progress than we like to admit, but anyhow it cannot be stopped. In commerce, finance, and general industry every nation of any spirit is striking out for itself. If they would be content with recapturing their own trade from us we might not complain, but the more ambitious of them are trying to turn the tables on us and capture what they can of our trade."

"Every year it becomes less British and more French and German. The foreign element in it is now so strong as to be practically in control. It has more influence over the foreign exchanges than all the joint-stock banks, or even the Bank of England itself. Through the foreign exchanges it may, under the peculiar working of the Bank Charter Act, give any desired turn to the money market. If it cannot actually make money cheap or dear, it may quicken the trend of business in either direction. When a change in the Bank rate trembles in the balance, the decisive touch may be given by a movement of gold out or in, a momentary increase or contraction in the supply of bills, a slight easing or tightening of money rates in the open market. While the domestic banker, whose customers have most at stake on the Bank rate, can do little or nothing to influence it, the foreign banker, who has least at stake on it, can

always be shaping in his own interest the conditions which govern it."

In 1901 that may have seemed a sweeping statement—probably it was condemned as such by "leave well alone" critics—but in 1914 it had become plain matter of fact. When Kaiser Wilhelm began to launch his ultimatums in the closing days of July, Lombard Street was so far in the power of the continental banks that it could not go on without a special arrangement to provide for their current liabilities. Three German banks—the Deutsche, the Dresdner, and the Diskonto Gesellschaft—had acceptances in circulation "running into eight figures," it was said. At the very least that would be ten millions sterling, but the market estimate was from 18 to 20 millions. Such a huge and uncertain liability was enough to pull up any market short, no matter how powerful. It came within a few millions of the Baring commitments in 1870.

If the sequel to this foreign financial invasion was not literally predicted by the *Banker's Magazine* in March 1901, its probability was at least clearly indicated. The writer went on :

"In the past decade, to go no farther back, the fundamental conditions of international trade and finance have been revolutionised. This immense change has worked to our prejudice, and to the advantage of our most formidable rivals. The world, it is to be feared, has outgrown the narrow economic basis of 1844 on which our financial pre-eminence was built up. The basis of the new régime is ever widening, and growing more cosmopolitan. This country is no longer an easy first in any of the main requisites of international exchange. It has not the largest monetary resources ; it is not the leading producer of any staple commodity ; it enjoys no longer the most favourable balance of trade. . . . Instead of one money centre, the world has now half a dozen. The younger ones are all jealous of London, and bent on lowering its supremacy if they possibly can. No opportunity is missed of diverting exchange business from us, and even such business as has to be done here is so conducted as to yield a minimum of benefit to London. Formerly, all the foreign banks were represented here by

London bankers, who accepted for them, collected their bills, bought and sold securities, and did all sorts of agency work. Now they have established branches here, and, not satisfied with their own proper business, they diligently pick up all the crumbs of London business which they find lying about around them. Our banks have not merely lost their foreign agencies, whatever these may have been worth, but they have to keep a close watch on their home preserves in order to prevent poaching."

The article concluded with a warning as to certain unhealthy tendencies which were already visible in our money market. First of all, said the writer :

"the conditions which made London the clearing-house of the world have changed in many ways to our disadvantage, and are still changing. Second, our foreign trade has been cut into at all points, and now our shipping trade is about to be assailed with still greater vehemence. Third, our banking system has become the common property of the world, and some of our pupils are improving on their teacher. Fourth, the British sovereign is no longer the unique coin of all nations, but only one among many such coins. Fifth, our supply of liquid capital of the kind requisite for transacting foreign exchange business on a large scale has not increased of late at its usual rate. Relatively to our fixed capital it seems to have even decreased. Compared with the liquid capital of our foreign competitors it has retrograded. Foreigners do more of their international business at home than they used to do, and they compete keenly in London for what properly belongs to us. They find it convenient to keep huge amounts of liquid capital here which, in critical times, might prove a danger to Lombard Street. Their large investments in sterling paper of various kinds give them a hold over us which is not compatible with the position we claim as the chief money centre of the world. If that claim is to be effectively maintained, the dependence on foreign capital into which we are drifting must be checked. If London is not to become a mere rendezvous for foreign bankers doing cosmopolitan business, its own bankers must take a leaf out of the foreigner's book and become as cosmopolitan as he is."

It is pleasant to be able to conclude the above fourteen-

year-old warning with a frank acknowledgment that it was not thrown away. The principal clearing banks soon afterwards launched into foreign exchange operations with a will, but whether or not they met with corresponding success is known only to themselves. No separate accounts are given of their foreign exchange departments, but all the allusions made to them at shareholders' meetings are laudatory. We may take it that the London banks have of late been getting a fair share of foreign business. At all events, such business must have undergone an immense development since attention was called in 1901 to the danger of leaving it mainly in foreign hands.

It is to be feared that the foreigner has secured a full share of its subsequent growth, but in any case he has done well out of it. Apart from any question of individual profit or advantage, it gave him a position in Lombard Street which, as we found the other day, may easily become a national danger. In fact, it was a national danger in the first shock of the war crisis. On the same day Lombard Street and the Stock Exchange came to a dead stop, and in both cases the chief cause of the stoppage was foreign default. The war served foreigners as a very convenient excuse for not meeting their engagements, but it was not the origin of the trouble. Without it there would have been a financial breakdown, though perhaps a less violent one. All the elements of a crash were present while the war as yet only loomed on the horizon, and the more than keen competition of German financiers was to a large extent responsible for it. Like the Kaiser, these very clever gentlemen over-reached themselves.

PART III

"EMERGENCY GOVERNMENT"

CHAPTER XI

ITS FLOOD OF EMERGENCY REGULATIONS

The moment that the war began, the effective government of the United Kingdom passed from the House of Commons to the Cabinet. Our political system ceased to be parliamentary and became virtually autocratic. The parliamentary machine kept up a show of action, and continued to draw all its emoluments, but most of the real work was done by the new machine operating alongside of it. This new machine had to a large extent to be improvised for the occasion. Its directors had to live from hand to mouth, and to meet every new emergency as it arose. Never was such a mass of novel expedients and makeshifts accumulated in so short a time or put to such a variety of uses.

If further proof were needed of how little either the British people or their rulers were thinking about war before the Kaiser launched his bolt from the blue, the law officers of the Crown have furnished it in the series of red books issued at intervals by the King's Printer, under the title of *Manual of Emergency Legislation*. So far three of them have appeared—the *Manual* itself, which starts from the declaration of war on August 4 and comes down to September 30; Supplement No. 1, which continues the series down to November 3, and Supplement No. 2, which carries it on to December. The *Manual* runs to 572 pages, the first Supplement to 54, and the second to 217—altogether 843 pages of statistics, Orders in Council, proclamations, rules, regulations, &c.

These were all produced within the short space of four months, and it can be easily guessed that most of them were done in a hurry. Bills were hastily drafted and rushed through the House of Commons with little or no

discussion and still less criticism. Before they had been well launched defects were discovered in them which necessitated amending bills, and these were rushed through with the same speed as the originals had been. Most of these emergency laws armed the Government with executive powers far in excess of anything ever before known among us since the days of the Stuarts. Charles the First would in fact have been more than satisfied with them, and if the Long Parliament had gone half as far to meet him as Mr. Asquith's House of Commons has done to oblige its leaders, there need have been no Civil War and no break in the continuity of the monarchy.

The short Autumn Session which opened on November 11 and adjourned on November 27 was the most prolific period in our parliamentary annals, and 90 per cent. of its output was emergency legislation connected with the war. The editor of the *Manual* states that of "the twenty Public General Acts which received the Royal assent before Parliament adjourned on the 27th ult., no less than eighteen comprise emergency legislation." Amongst them were the Trading with the Enemy Amendment Act, which largely extended the Act of last session, the Finance Act, and the Government War Obligations Act, which provided the additional taxation called for by the war, also funds to meet the Government obligations incurred in respect of our allies, the Governments of Oversea Dominions, traders, and others.

Emergency laws would be hard enough on the commercial public if they were passed once for all and then consistently enforced. They become doubly hard when their authors are continually chopping and changing them. A certain amount of modification and amendment is of course inevitable, but in this case we have full measure and running over. The Trading with the Enemy, the Defence of the Realm, and the Government Obligations Acts appear to be always on the anvil. Each of them has produced an ever-lengthening series of proclamations, declarations, and official announcements. The later ones alter, amend, revoke, or supersede their predecessors, so that it grows more and more difficult for

traders to find out what is in force and what is not. The editor of the *Manual of Emergency Legislation* has kindly put in italics the various Acts and proclamations which have been repealed, but even that does not render it very easy to consult.

It was not until September 18—fully six weeks after the war began—that the first Trading with the Enemy Act was passed. In the interval the Government had a free hand to regulate it by means of proclamations and Orders in Council. In one respect the Act made very little change, as it did not attempt any definition of enemy trading. It only provided for inspecting the books of suspected persons or companies, and for empowering the Board of Trade in certain cases to apply to the High Court for a receiver. All the rest was left to the Treasury and the Board of Trade. Clause 1 (2) subjects the whole commerce of the country to proclamation-made law thus :

"For the purposes of this Act a person shall be deemed to have traded with the enemy if he has entered into any transaction or done any act which was at the time of such transaction or act prohibited by or under any proclamation issued by his Majesty dealing with trading with the enemy for the time being in force."

Seeing that in the early stages of the war proclamations were succeeding each other almost as rapidly as special editions of the evening papers, it required some vigilance and energy to keep track of them. The authorising Acts themselves were not models of lucidity. A second edition of the Trading with the Enemy Act was passed on the eve of the parliamentary adjournment on November 27, 1914. It made "further provision for preventing the payment of money to persons and bodies of persons resident in or carrying on business in any country with which his Majesty is for the time being at war." This was in favour of the enemy rather than against him, as its object was to preserve his property with a view to arrangements to be made at the conclusion of peace. The Public Trustee was appointed the Custodian of such property in

England, and Custodians for Scotland and Ireland were to be appointed by the Board of Trade. All the administrative regulations made by the Board of Trade were to be subject to the approval of the Treasury. These two departments not only acquired absolute power over enemy property in the United Kingdom, but they were enabled to check transfers or other dealings in securities belonging to enemy aliens.

The above examples may suffice to illustrate the chief characteristics of emergency legislation—first, its hand-to-mouth production; second, its wide and ever-widening scope; third, the enormous power it confers on the Executive for the time being; fourth, the almost complete suspension of parliamentary authority that it involves; fifth, the corresponding diminution of ministerial responsibility which finally results. "Emergency Government" is, in a word, the least controlled of any. It will consequently be the most autocratic and at the same time the most expensive.

Conversely it may be said of emergency legislation that it is of the most hand-to-mouth character that can be imagined. The war measures of 1914–15 are no less extraordinary in their provisions than in their number and diversity. In effect they gave the Cabinet, and especially the Treasury, a ruling voice in our banking, financial, commercial, shipping, and industrial affairs. The result was a silent revolution, the full extent of which was not realised until it came into operation. On the part of the House of Commons it was an act of virtual abdication, and the House followed it up by a logical sequel in immediately afterwards adjourning for five weeks. While it was sitting it made so little use of its powers of supervision that its physical absence made very little difference. The Press was almost as dumb as the popular branch of the Legislature, and Ministers had virtually a free hand to wage war at home and abroad as they pleased.

Such a stream of Orders in Council, Royal Proclamations, and Treasury Minutes could not fail to come into frequent conflict with each other. They also produced now and then most unexpected and inconvenient results.

A decree issued in Downing Street or Whitehall might have embarrassing effects on the other side of the Atlantic, or even at the Antipodes. Thus, when the blanket famine was on at the War Office, attempts were made to obtain large supplies from the United States. But owing to certain previous action of the emergency regulations they could not be obtained. An American paper, the *North-Western Agriculturist*, tells the story in a matter-of-fact way which leaves no doubt as to its authenticity :

"Manufacturers of woollens in America have been offered recently million-dollar contracts for making blankets or other woollen goods for the European armies, and have been unable to accept the contracts because they could not be sure of getting sufficient wool. It is impossible to import enough wool because Great Britain has refused to permit wool to be shipped out of Australia and, under the unwise free-trade policy of our own Government, our own production of wool in the last two years has been so unprofitable that the number of sheep has been greatly reduced. It is certainly tantalising to know that there is now an insistent demand for more woollens than the American woollen mills dare contract to make."

It must have been still more tantalising for the War Office to find Board of Trade prohibitions recoiling upon it from the Antipodes. No ordinary human foresight could have anticipated such a lengthy back-stroke, but the moral holds good in war as well as in commerce—Take care in hitting the enemy that you do not hit yourself harder. This illogical proceeding is believed to have frequently resulted from the Treasury restrictions on the Stock Exchange. A still more significant discovery arose out of the desperate attempts of the Government to cut off supplies from the enemy. In the case of Germany this was rendered exceptionally and gratuitously difficult by our own previous laxity. Copper, nickel, tin, zinc, lead, and the other base metals of which unlimited supplies are needed in war had to a large extent been cornered by German syndicates. Many of the chief sources of these metals were under German control. Even in the British Dominions, especially in Canada and

Australia, the metal markets had been completely Germanised.

It was surely rather innocent of us to expect a few policemen armed with "emergency" regulations all at once to shut up channels of trade on which the most skilful of commercial schemers had been at work for years. If the Germans had not been allowed, and even encouraged, to capture a large portion of the nickel output of Ontario, and a still larger portion of the Broken Hill production in Australia, it would now have been a much simpler military problem than it is to cut off these supplies of war materials from the German army. It was hardly flattering either to the British or the Dominion authorities when all they could say in the eighth month of the war was that these vital matters were at last engaging their attention.

The question of Canadian nickel did not crop up in the Press until January, and on February 8 a private member of the Dominion House of Commons introduced a Bill to regulate its export. The Premier, Sir R. Borden, in asking that its consideration be deferred, explained that the "general subject had received the careful attention of the Government, and arrangements were already made which had received the approval of the British authorities, especially the Committee on Naval Supplies." Whereupon the Bill was shelved, and along with it one of the most important questions of the war. Canada is the largest nickel-producer in the world, and its nickel mines are concentrated in a comparatively small area west of Sudbury (Ontario). Two companies—one English (the Mond Nickel) and the other American—have a practical monopoly of the nickel supply. The British navy, which is one of the largest consumers of nickel, has hitherto been at their mercy, and was never more so than since the war began.

The German Metal Ring at the Antipodes was a still more scandalous business. When the war broke out the Australian miners discovered to their cost that for years the industry on which they lived had been under German control. The Federal Government instructed the Attorney-General to investigate the case, and a startling

report by him was the result. "It is," he said, "a humiliating but irrefutable fact that Australian capital, enterprise, and labour have materially aided the enemy in this dreadful conflict. The value of the lead, zinc, copper, and tin produced in Australia amounts to about £13,000,000 a year. *The whole of this industry is controlled from Germany.* Everywhere agencies are established which assume the cloak of the nationality in which they find themselves."

The Attorney-General went on to explain that metals must be bought and sold to these agencies at prices fixed by a convention. They are all subject to contracts for long periods, that for zinc not terminating till 1920. There is an airtight German monopoly of the whole industry. It limits the output, regulates the markets, determines the channels of distribution, and fixes the prices. So absolute is the monopoly that when the war broke out the metal industry fell to pieces. Mines and smelting works had to be closed, and thousands of miners were thrown out of work. They promptly appealed to their friends in the Federal Parliament, and the Labour leaders are already concerting measures to break up the German Ring.

No manœuvres of the ubiquitous German at the far ends of the British Empire need, however, surprise us after what we have seen of him during the war in our own midst. In his various rôles as spy, special constable, neutral trader, high financier, &c., he has completely baffled all the British authorities responsible for looking after him. In many ways he has had the run of the country almost as freely since the war began as he had before. The penalty he has made us pay in life and property for his freedom to spy and plot against us in our very midst is an item in the cost of this terrible conflict on which we shall hereafter look back with shame and indignation. When the miserable story comes to be fully told our posterity will wonder at the blind fatuity which never foresaw any German danger at home, and would not recognise it even when daily proofs were being given of its ruthless activity.

"Emergency government" doubtless had its successes in the City, which will be always gratefully acknowledged. Against them, however, must be set down some bad failures elsewhere. Its system of home defence broke down badly at various points, or we might say more correctly that it had fallen between two stools—national and local jurisdiction. These two spheres have never in our history been properly co-ordinated, and their inability to co-operate has been very conspicuous during the war. The absurd arrangement between the War Office and the Home Office as to enemy aliens under which one does most of the work and the other has all the responsibility, is simply the natural fruit of past neglect to get our military and our municipal systems fitted into each other. When this emergency overtook us neither Office was fitted to deal with such questions as the enemy alien, least of all the ubiquitous spy armed with the latest scientific weapons of his calling—wireless telegraphy, flash-lights, and swift motor cars.

If the problem of home defence had at the outset been thought out as thoroughly as were the operations in France, a special Minister would have been at once put in charge of it. Lord Roberts was then alive, and he would have been an ideal man to organise it. Before he died he could have had it so firmly established and in such good working order that it might have passed on without a hitch to some capable successor. How many bad quarters of an hour might have been spared thereby to the unfortunate people on the east coast who were Zeppelined in their sleep and bombarded in broad daylight. How much more promptly and effectively spies might have been dealt with by a special force than they were, and still are, by a haphazard combination of boy scouts, police constables, and military officers. To this day it is uncertain what the respective duties of these various authorities really are. Cases have occurred in which the authorities themselves do not know the extent of their legal powers, and strongly-suspected persons who might have been arrested on the spot escaped in consequence of official ignorance.

Notwithstanding all the modernisation and bringing up to date which it has undergone of late, the machinery of our local government still retains a good deal of its ancient clumsiness. It continues to be too subdivided, and therefore needlessly intricate. An intelligent foreigner watching its recent vagaries might infer that we had reduced local administration to a game of blind-man's-buff between a crowd of authorities who have no apparent connection with each other. Some of them are civil, some military, and some nondescript. One set of them own allegiance to the Home Office, another to the War Office, a third to the Admiralty. To make confusion worse confounded, the chief constables retain much of their ancient jurisdiction. Each of these authorities has its own beat marked out for it, and must keep within its proper limits. An ideal arrangement, it will be thought, for law-breakers, and especially for spies, in war time!

So hopelessly mixed up were the spy-hunters that they tumbled over each other, but seldom caught any spies, even on the east coast, which was known to be swarming with them. Neither could the party responsible for letting them escape ever be got hold of. Night after night Mr. M'Kenna was badgered in the House of Commons about mysterious lights in windows on the coast, suspicious motor cars, apparently in attendance on German cruisers, and signals from deserted houses overlooking the sea. He had a stereotyped disclaimer of responsibility: "The incidents referred to by the hon. member were not within the jurisdiction of the Home Office." Parliamentary inquiries were seldom pushed farther, though it might have seemed a very proper sequel to the original question to add—"Who then was responsible?"

Months passed before a corner of the thick curtain was lifted behind which all these mystifications had been carried on. Then it was not the House of Commons we had to thank for the belated relief, but a letter to the editor of the *Times*. Mr. J. G. Butcher in this letter explained how the jumble of authorities already existing had been aggravated by the emergency legislation of the

first war session (1914). The Aliens Restriction Act and the Defence of the Realm Act had added a variety of new duties to others which were already being very imperfectly discharged. As in so many other cases, no new machinery was provided for their execution. Neither was a thought bestowed on the question whether or not the multifarious authorities could perform them efficiently. So long as the measures could be steered through Parliament and got on the statute book their lawyer authors did not care much what happened to them afterwards. The ink might hardly be dry on them before they needed amendment. Some unintended and unwelcome effect might necessitate their being strangled in the cradle. Whether they were patched up or repealed, the effect would be disastrous to the reputation of the House of Commons as a law-making body.

The true defence of Mr. M'Kenna against the indignant criticisms and interrogatories which day by day assailed him was that the House of Commons itself was the chief sinner in the spy scandal. It perpetuated the jumble of divided authorities on which no individual responsibility could be fixed. Then when the war broke out, instead of creating proper machinery for the work to be done, it piled more work on the old machinery, and instead of obtaining increased efficiency it got increased futility. Among the additional duties pitchforked at the naval and military authorities by the emergency legislation of 1914 Mr. Butcher enumerated :

(*a*) The removal of suspected persons from particular areas.

(*b*) The arrest without warrant of persons suspected of having acted prejudicially to the public safety, or of having violated any of the thousand and one new regulations.

(*c*) The trial by court martial of persons offending against the regulations.

In effect, added Mr. Butcher, "naval and military officers are asked to become at once detectives, criminal investigators, lawyers' clerks, criminal lawyers, and criminal judges."

Fortunately for the Cabinet, not many of their emergency measures were as unsuccessful as their feeble campaign against German spies and plotters. They had many other novel and perplexing questions to handle, and they can seldom be accused of feebleness in these cases. More frequently—as in the case of the Stock Exchange—they went to the other extreme. It must be credited to them that when their own knowledge of the subject failed they had no false modesty about seeking outside advice and assistance. These were in every instance given them freely and cordially. No previous Government ever enjoyed such a spontaneous outburst of loyal support, not only political, but financial, commercial, and industrial. Nor did any previous Government ever make such startling and sensational demands on all classes of citizens. But to every fresh demand, whether for greater sacrifices or extra efforts, the same ready response was always forthcoming.

Another novel and unprecedented feature of emergency rule has been the lavish use made of Advisory Committees. This new institution has been in great vogue at the Treasury throughout all the critical negotiations for the protection of the bill market, the currency, and the Stock Exchange. Mr. Lloyd George quickly realised his inexperience and lack of technical skill in such intricate matters. So he wisely called in a great variety of financial experts to guide and direct him. Two ex-Chancellors of the Exchequer laid aside their objections to his new finance and gave him all the help they could, as he gratefully acknowledged. His friend, the Lord Chief Justice, sacrificed his autumn holiday in order to sit at his elbow and solve for him knotty problems of City business. All the principal bank managers in London and a few in the provinces held themselves for months at his beck and call. In addition he had private consultants at his service, whose brains he no doubt skilfully picked.

It was well for the Chancellor that he had such a crowd of patriotic and capable assessors, and well for the country that he had a sufficient sense of public duty to make liberal

use of them. But it would surely have been much better if such grave questions as most of these were had not been left to the judgment of a single Minister and his casual advisers. However skilful an advisory board might be, and however high the authority of its members, they were, after all, only a scratch committee. Worse still, they remained behind the scenes, and few persons even in the City ever knew the names of one-half of them. They had consequently no personal responsibility for the results of the advice they gave the Chancellor. Everything was done in his name and by his official authority. For the successful measures he got all the credit, and for the unsuccessful ones nobody will be to blame.

But if the Advisory Committee is to become a permanent part of our political administration, should it not be openly and officially adopted? Instead of leaving it to Ministers or Heads of Departments to call in scratch committees when they need outside advice, why not have properly organised committees always available to deal with emergencies like those we have been passing through in the past nine months? Had it been known what a combination of financial strength and skill the Chancellor had at his command during the July and August crisis, popular confidence would have been restored much sooner than it actually was. In fact, it might never have been seriously disturbed.

Many business men would go further than that. In all public offices where business methods are indispensable they would like to see not merely permanent in place of scratch committees, but boards of managers presided over by non-political Ministers. In no other country, small or great, are one-man finance and single-barrelled budgets carried to the extreme length that they are at Westminster. No other country would leave the supervision of its home and foreign trade to a Board which still bears traces of its political and ecclesiastical origin. Most of them have genuine Boards of Trade composed of skilled and experienced commercial men.

In time of war they do not require to set up an emergency régime, or to call in all sorts of Advisory Committees, or to delegate their business duties to purchasing agents. Consequently they have no timber-purchasing monopolies, which yield a fortune in a few months to the lucky monopolist.

CHAPTER XII

ENEMY TRADING

Cutting off the enemy's trade has always been an effective weapon when skilfully used as an auxiliary to military operations. In modern wars it has become a special science, the successful exercise of which calls for a rare combination of legal and commercial experience. It is, in a way, more difficult than the military operations themselves. It involves continual risk of conflict with neutrals, of practical abuses which may have grave consequences for the belligerent at fault, and of errors of judgment which may, in the end, prove costly. To steer clear of all these risks in a modern war is becoming almost impossible. The most friendly of neutrals will have only a limited amount of patience when his material interests are assailed. Even when he is gaining by the war in one direction much more than he is losing in another, he will feel—and resent—his injuries much more than he realises his benefits. The Americans are not the least notable example of this national peculiarity.

The subject of enemy trading is not only very complicated and many-sided, but it labours under a variety of serious disadvantages. The most obvious of these is the conflict that invariably arises between its military, its legal, and its commercial bearings. They seldom or never agree, and often they directly clash with each other. Questions of enemy trading cannot therefore be regarded solely from the administrative standpoint. Many of them are novel problems which no Minister could be reasonably expected to grapple with successfully at first. They require very careful and comprehensive study. Any action taken upon them may have to be largely experimental. A stroke in one direction may provoke an un-

expected counter-stroke. The chaos of legal rulings and precedents which has grown up around them is further confused by a large infusion of human nature.

In no branch of international politics is the unexpected so likely to happen or are mistakes so easy to commit as in the prevention of enemy trading. Such risks increase and multiply with the expansion of the war. They must necessarily be greater in a three-Power than in a two-Power war. In a four-Power war they must be greater still, and when we come to a war involving nearly all the Great Powers in the world, there is no conceivable limit to the difficulties and disputes that may arise. A Government acting under such abnormal conditions, and liable to be confronted at every turn with novel emergencies, cannot be judged by the same standards as would be properly applied to the routine duties of administration. Each case will have to be considered by itself and judged on its own merits. All the general policy that can be fairly asked for is a certain degree of uniform and consistent principle. The two extremes of laxity in one quarter and undue severity in another are equally to be avoided.

A systematic scheme for the prevention of enemy trading will consider first where and how such trading may be most easily carried on; second, where it can be conducted on the largest scale and with the best chance of substantial profits; third, where it will be most difficult to detect and punish; fourth, where it will be most helpful to the enemy, and therefore likely to be best paid for; fifth, where the enemy can be reached by the shortest and safest route; sixth, where the operation can be most effectively disguised and made to look like innocent neutral trade; seventh, where the enemy trader has the freest hand and the least responsibility either to his own Government or to the belligerents he operates against.

If we had to classify the various kinds of enemy trading according to the respective facilities they enjoy, banking transfers ought to rank first, supplying the enemy with goods would come next, and dealing with him in securities would be last. This, we admit, is exactly the reverse of

the order usually adopted, and which is now being strenuously applied by the British Government. Its greatest and most relentless vigilance has been directed to the unfortunate stock markets under the mistaken impression that they are the most dangerous centres of enemy trading. The Treasury could not be drastic enough in its muzzling of the Stock Exchange, while sometimes it seemed as if it could not wink hard enough in Lombard Street or on the east coast.

Though not a tithe of the enemy trading that took place in this country in the first six months of the war ever came to light, or is ever likely to, cases enough appeared in the public courts and the public Press to justify the above statement. Who can guess how many thousand tons of English and Welsh coal found their way to Germany while the Government were drawing up proclamations threatening exporters with the terrors of the law, and a few days later issuing other proclamations to explain them away. The first of the series appeared on August 5, the day after the state of war with Germany commenced. It warned "all persons resident carrying on business or being in our Dominions not to supply to or obtain from the said (German) Empire any goods, wares, or merchandise," nor "to enter into any new commercial, financial, or other contract or obligation with or for the benefit of any person resident, carrying on business, or being in the said Empire."

Evidently the immediate result was a flood of inquiries from business men as to the meaning of all that old-world legal jargon. After a fortnight's consideration of the many and various problems thus raised, the Government issued on August 22 an "explanatory announcement" which left very little of the original prohibitions in force. It furnished loopholes for their evasion, as, for instance, when it stated that there would be "no objection to British firms trading with German or Austrian firms established in neutral or British territory." What is prohibited, it said, "is trade with any firms established in hostile territory." The probability of the branch firms in neutral territory passing on the transaction to

the parent firms in hostile territory was completely ignored. The law officers of the Crown started with the remarkable opinion that "the important thing is to consider where the foreign trader resides and carries on business, and not the nationality of the foreign trader." But the "explanatory announcement" failed to explain that, and on September 9 a brand new proclamation had to be issued superseding the other two. For the first time it specified various acts of trading with the enemy which were forbidden—payment of money to or for the benefit of an enemy, compromising or giving security for any debt due to an enemy, drawing, accepting, presenting for acceptance or payment, negotiating, or otherwise dealing with any negotiable instrument; entering into any new transaction or completing any transaction already entered into with an enemy in any stocks, shares, or other securities; directly or indirectly supplying to or for the use of an enemy country any goods, wares, or merchandise; permitting any British ship to leave for, enter, or communicate with any port or place in an enemy country; entering into any commercial, financial, or other contract or obligation with or for the benefit of an enemy.

On October 8 a fourth edition of this chameleon proclamation was given out by the Home Office. Next day the Board of Trade came on the scene and provided a first instalment of the machinery for enforcing these prohibitions. Up to this point the most loyal traders might well be excused for not knowing where legitimate trading ended and illegitimate trading began. The law appears to have been freely interpreted by many of them in their own favour, and the authorities did not interfere with them until they were forced to do so by remonstrances both public and private. Still more remarkable was the fact that the chief offenders against our enemy trading laws were German firms which continued to carry on business as usual. In the coal trade this laxity of the Home Office became such a scandal that the City editor of a widely-circulated journal called attention to it. In the *Daily Mail* of October 1 Mr. Duguid wrote:

"There is a very strong feeling in the City with regard to the continued operation in this country of German firms in the coal business and the failure of the authorities to deal with them.

"Firms and companies that are in reality branches of the greatest coal factors in Germany are still carrying on business here, and it is regarded as inconceivable that they can be doing it merely for the sake of making a profit by dealing between this country and neutral countries, thereby helping our export trade.

"To permit these firms to continue business is as dangerous as to allow a branch of Krupp's to export war material from this country.

"Representations have been made by City firms to the authorities, but the main tenor of the reply is that they must have concrete instances in which coal shipped from this country has been intended ultimately for the enemy.

"This attitude has had an exasperating effect on the informants, who reasonably contend that even if no damage has yet been done, the continued operation of these German-owned firms in this country is a menace to the nation

"It requires no vivid imagination to grasp the effect of even one collier-load of coal transported, say, to the *Emden*.

"If by the legal inability or the neglect of the authorities to prevent it, these firms manage directly or indirectly to convey coal to German warships, British lives and British shipping may be the cost. To wait for concrete instances, it is contended by the business man, is a fatal policy.

"The danger is increased by the eagerness of the enemy to get certain kinds of British coal that give greater speed than any of the German coal. The greater speed, again, might have lamentable consequences in a naval engagement."

The possible motive of the authorities in dealing so tenderly with the coal exporters in the early days of the war need not be too minutely inquired into. Surprise may, however, be excusable when we find even more important interests than the coal trade laying themselves open to suspicion. Not merely in the opening stage of the war, but after it had been months in operation, banks and accepting houses were definitely charged with helping to finance German purchases in this country.

Financial organs of repute, and in at least one instance standing close to the Treasury, have published these charges. Either denial or investigation should have followed, but as yet there has been neither. The Home Office and Lombard Street are equally silent.

So rapidly and frequently did the law officers of the Crown change their minds as to what was and what was not illicit trading with the enemy that in the brief interval between the issue of a summons and the hearing of the case the alleged offence had disappeared. A funny incident of this sort occurred in January 1915 at Smethwick. It was thus reported in the local Press :

"Upon the application of Mr. Maddocks for the Crown, the Smethwick magistrates agreed to the withdrawal of eight summonses against Messrs. J. A. Phillips & Co. for trading with the enemy by purchasing German handle grips.

"Mr. Maddocks said the reason for the application was that since the hearing of the first summonses a second proclamation had been issued making trading with the English branch of a German firm perfectly lawful."

Some things were made lawful and easy for the enemy alien which loyal dealers in negotiable securities were absolutely forbidden to do. While a hostile alien firm was allowed to set up a branch in this country, and through it to trade with British subjects, one British subject could not sell to another British subject a British security without making a declaration that "it had remained in physical possession in the United Kingdom since September 30, and that it had not since the outbreak of the war been in enemy ownership." The particular security may not have existed on September 30, 1914—as, for instance, the War Loan—but that made no difference; the "physical possession" guarantee had still to be given. Or it may have been located in some Dominion or colony which is just as British as the United Kingdom itself. It would still be tabooed under the Treasury regulations. For months it was banned as "not a good delivery."

Members of the Stock Exchange might have found the microscopic supervision to which their operations

were subjected less difficult to endure if they had seen equal vigilance being exercised in quarters where there was much greater risk of treasonable trading with enemy aliens. Why was it that the sale of ten shares in a joint-stock company could not be carried through without the signing of as many declarations and the filling up of as many forms as would serve for a land valuation return, while Germans and Austrians were still allowed to juggle with acceptances running into millions of pounds a week? For this last surprising statement we are indebted to an unimpeachable official, or at least semi-official, organ, the *Statist*.

In its issue of January 2, 1915, the *Statist* professed to have positive knowledge of a scandal which, if true, would be far worse than anything that could possibly happen on any public Exchange. In an article on President Wilson's protest against British seizures of American cargo on board neutral vessels it said:

"Neither of the two Governments is really responsible for the hitch that has occurred. It is in very large measure our own acceptors of bills who have brought about the present complaint from America. The banks, the great accepting houses, and so on, are at the present time, and have been since the war began, enabling goods to be sold ostensibly to neutrals, while they have had every reason to believe that the goods were intended for Germany. We have grounds for saying that some of these persons, when remonstrated with for their conduct, have replied that if they refused, they might lose the connection with the neutral countries altogether, and that they are not prepared to risk such a consequence. Even the report that a son, a brother, or other relative at the front may be lost in consequence has not moved them."

Then followed a very proper warning to the optimists who flatter themselves that the end of the war is in sight. The *Statist* agreed with Lord Haldane that it might be only beginning. The ultimate exhaustion of Germany was, it thought, still far off, and every necessary article it could obtain from abroad would delay that essential end. The following passage launched the most grave

charges against nameless people high up in the City. But the *Statist's* challenge has not been accepted. It has, in fact, provoked no greater response than did Mr. Duguid's protest of October 1 against the German coal exporters. Nevertheless neither vagueness nor ambiguity can be pleaded as an excuse for ignoring language like the following:

"Our Government ought to bestir itself. It ought to collect information as to the action of those of our own people in great positions in the City who are enabling Germany to fight on; and if there are no other means of putting a stop to such conduct, the names of the worst offenders ought to be published. Our readers must clearly understand that Germany is at present in no danger of being exhausted at an early date. She will have food enough, at all events, until the next harvest. And so long as contraband is passed on to her through neutral territory she can get the copper, the nitrate, and other things necessary to enable her to continue hostilities. Unquestionable as is our command of the sea, it is brought to nought to a great extent by the action of our own fellow-citizens who, for the sake of preserving connections with the neutral countries, are contravening the law of the land, and falsifying their professions of loyalty and patriotism. It is not to be wondered at, then, that the American Government should protest against conduct of this kind. But it will become intolerable if the Government allows such action to continue without, at all events, using the utmost powers of the law to put a stop to it. The public will not easily be induced to believe that the law is powerless in a matter of such momentous consequence to the Empire. Furthermore, we feel sure that if Ministers will inquire they will obtain information corroborative of what we say."[1]

Whether or not Ministers took the *Statist's* advice and applied for information, it is a puzzling fact that soon afterwards the Board of Trade gave an important ruling not against, but in favour of the enemy traders. It was to the effect that in certain circumstances money owed by British subjects to German firms, which have been

[1] *The Statist*, January 2, 1915.

trading in this country, must be paid to the British representatives of such firms. Even when the latter had been appointed after the outbreak of the war, they might collect all outstanding debts exactly as if they were due to British creditors. The sapient defence of this amazing decision is that money thus paid cannot possibly get to Germany, because it is transferred to a legal representative domiciled in this country.

The stern vigilance which was practised in some quarters was hard to reconcile with the laxity shown in cases like the foregoing. But later on the Board of Trade relaxed still further its prohibitions of enemy trading. While it was negotiating with the aniline-dye users for the establishment of a two million sterling dye-works, it offered licences for the indiscriminate importation of aniline dyes from abroad—not excepting Germany! This has given the German firms with "domiciled British representatives" in this country a few more excellent opportunities of laughing at our futile anti-enemy trading regulations. But it will puzzle them quite as much as it puzzles British traders to guess on what principle these regulations are framed.

The ubiquity of the German trader and the persistent skill with which he pursues ways that are devious and dark give him great advantages in war as well as in peace. At the outset of the war, when the Allies thought they had got him shut up in his shell, he was already busy opening up roundabout channels of all kinds above ground and under ground to circumvent them. He was scheming to keep up his connection with British markets—to send his goods thither and get British goods in exchange. Later on he started the same game in America, making use of neutral countries as go-betweens. It required a large amount of intricate and cunning work to achieve even small results. Four or five different operations had to be carried on concurrently, and in such a way as to serve a common end. At the same moment surreptitious shipments of German goods might be going to London, and surreptitious shipments of British and American goods might be going to Germany *via* Holland. Mean-

while the skilled manipulators of money and exchange in New York, co-operating with their brother Germans in Berlin, could secretly thwart our plans for resuming business and restoring values. By the middle of October the Americans began to have strong suspicions on this point. These were communicated to London in cables which gradually became more and more explicit. The following message from the *Times* correspondent will serve as a sample of them :

"NEW YORK, *Oct.* 18.

"There is a growing belief here that Germany is becoming an increasingly heavy purchaser of commodities in the United States, receiving therefrom large shipments of grains, foodstuffs, oil, and copper through Scandinavian countries.

"Various developments and circumstances are cited as indicating this, although positive proof is difficult to obtain, owing to the utmost secrecy maintained by the handlers of such business.

"It is reported in produce exchange circles that both Germany and Austria are actively purchasing grain and provisions, which are reaching them indirectly. Swedish and Danish importers, it is said, are reaping large profits therefrom."

So thoroughly had the Germans wormed their way into our public contracting, both national and municipal, that the authorities themselves when they began to inquire into it were amazed at the discoveries they made. Even District Councils were found to be spending large amounts of money abroad. Urban Councils in the neighbourhood of London—probably following the example of their bigger brothers at Westminster and Spring Gardens—were importing road metal from quarries on the Rhine. German basalt was the only wear for British roads. How far this craze had been carried by our municipal rulers is shown by the result of an investigation into the composition of the firms on the contractors' list of the London County Council. This was made by the Stores and Contracts Committee after the war had been going on for about five months.

No less than twenty-eight firms whose tenders or esti-

mates had been accepted by the Council proved to be under the control of enemy aliens. Their names were at once removed from the list of eligible tenderers for the supply of stones, &c. But this belated precaution did not take place, or at least was not announced, until January 1915, when the war had been in progress for nearly half a year. If the Admiralty, the War Office, the Board of Trade, the Public Works Department, and the Local Government Board were to have their contractors' lists similarly analysed, how many of them might appear to be dominated by alien enemies? A peculiarly interesting field of investigation would be wireless telegraphy. Previous to the war the Marconi Company, the Telefunken, the Goldsmid, and several others were so curiously interlaced as to form a great international network. That such a dangerous international combination should have been tolerated for a single day by the British Government is one of the worst incidents in the parliamentary nightmare which disgraced the two years preceding the war. In his evidence before the Marconi Committee in 1913, the writer strongly urged that the first step toward the creation of an imperial wireless chain should have been the buying up of all the Marconi stations, patents, and other interests. Then the Government could have started on a clean sheet and with a free hand as the French, German, and American Governments did. How or where we stand now in wireless telegraphy the Post Office itself does not know.

Having seen something of our own tender-hearted way of dealing with enemy traders and enemies generally, we can now turn for a wholesome change to the shorter and sharper methods that have been adopted in other countries. The following is the Russian method as described in a Petrograd telegram of December 2, 1914:

"An imperial ukase has been issued which contains the following provisions:

"'(1) The prohibition of the payment without special authorisation from the Minister of Finance, or the delivering, dispatch, or transfer to any institution or subject of Austria-Hungary, Germany, or Turkey of money, securities, silver,

gold, platinum, or precious stones and articles made of the aforementioned metals.

" '(2) The prohibition of the export to foreign countries of money, securities, silver, gold, or platinum to a value of over £25 for each dispatch.

" '(3) The prohibition of access to the safes of persons holding procurations delivered to the aforementioned institutions.

" '(4) All payments to Austro-Hungarian, German, or Ottoman subjects not in Russia, but owning commercial undertakings or properties there, shall be made in Russia by those holding powers of attorney for these undertakings, appointed before the war.

" '(5) The Minister of Finance shall take steps effectually to control the expenditure and receipts of limited companies founded in Austria-Hungary, Germany, and Turkey for the purpose of carrying on work in Russia, and of the expenditure and receipts of companies and undertakings belonging entirely, or partially, to subjects of the above-mentioned States.' "

In Australia a still shorter and more effective method of dealing with enemy traders was discovered and put in force. When the wool sales came on there were many German buyers in Sydney, and at the January sales they began to bid as usual, but it had been agreed beforehand to boycott them. According to a Sydney paper :

"The auctioneer refused to take bids made by German buyers. A dispute followed, and the lot in question was resubmitted, and finally knocked down to a French firm at the price bid by the Germans. Subsequently other supposed German bids were also refused, and the representatives of the German firms, being unable to buy, left the room."

CHAPTER XIII

OUR GERMAN EXPLOITERS

During the war half a dozen different classes of Germans have been enjoying various forms and degrees of British hospitality. Widely as they differ from each other, they have two characteristics in common. They have all been exploiting us to the best of their ability, some in a small way and some in a large way. On the other hand, they have all received from us the best and kindest of treatment. Even those who helped to cause the war are suffering less from it than many of our own people. Though they were the occasion of the emergency régime, it has sat lightly on most of them compared with what it has done on ourselves.

Our German guests—and exploiters—may be graded in an ascending scale from prison to Privy Council. There are first the twenty master spies, of whom one is undergoing three years penal servitude, but the other nineteen cannot be court-martialled because, according to Mr. M'Kenna, "their offences were committed in time of peace, and before the passing of the Defence of the Realm Act." Next there are the interned prisoners of war. Then the interned civilians who cannot be trusted at large. Next the harmless Germans who have simply to be registered and to report themselves periodically to the police. Then the naturalised Germans who are allowed to go quietly about their business as usual. And at the top of the pyramid there are the German millionaires who have entrenched themselves as strongly in the upper circles of our politics and finance as the Kaiser's legions have established themselves in Belgium. Half a dozen gentlemen of unmistakable German pedigree remain on the roll of the Privy Council, but happily public protests

succeeded in getting the line drawn at the Board of Admiralty.

Socially, politically, and financially our German exploiters have "dug themselves in" with characteristic thoroughness. From the highest to the lowest rung of our social ladder they are in evidence. And their influence is not to be measured by numbers. In appraising it account has to be taken of their keenness, persistence, and self-confidence. These strenuous qualities have served them well everywhere. They have been exercised with equal success at Westminster, in Mayfair, and in the City. In our municipal as well as in our national life, down to the humblest local authorities, the German element has for years past been increasing. Loyal and honourable it may be in many cases, but we cannot altogether ignore the warning given us by the German ex-Consul at Sunderland, that, naturalised or not, it always remains German at heart.

Notwithstanding all the sensational disclosures produced by the war, few people have yet the faintest notion of the extent to which British politics, banking, commerce, and finance had been previously Germanised. It was high time for some unpleasant surprise to shake our besotted faith in the foreign tutelage which had proved so mischievous, and at times disastrous, in various branches of our finance. Its latest example, the deadlock on the Stock Exchange, is mainly due to foreign operators who had been working hand in glove with alien brokers and jobbers in Capel Court. It has been calculated that quite 10 per cent. of the members of the Stock Exchange are aliens, and about 7 per cent. of them Germans. A still larger percentage of Germans is to be found among the finance houses, issuing houses, arbitragers, dealers in foreign exchange, company promoters, bill brokers, and so-called merchant bankers. As for alien speculators, punters, and half-commission men, Throgmorton Street was overrun with them.

In so-called high finance German firms had at one time a virtual monopoly. Most of the big Government issues were made through them. International loans were their

special perquisites, as their "consortiums" at all the chief monetary centres could defy competition. Hence they could dictate terms both to borrowers and lenders. But they were not so ready to step into the breach when one of their huge financial operations went wrong and caused widespread ruin among their dupes. The lower grades of finance have also suffered at their hands. They have played their own game in all the stock markets of the world, particularly on the London Stock Exchange, which is now paying the penalty of their wild plunging.

It is not often that bankers tell tales on each other, but a notable case occurred lately which throws a flash-light on our present subject. At the half-yearly meeting of the London City and Midland Bank, Sir Edward Holden entertained his shareholders with some examples of German "frightfulness" in the banking and Stock Exchange line. His suggestion was that the war had been anticipated on the Berlin Bourse nearly a fortnight before the Kaiser began to issue his ultimatums. German banks began to prepare for it by throwing overboard their securities and frightening their customers into doing the same. The inevitable effect was a German panic, which rapidly spread to all the other stock markets in Europe. It is hardly saying too much to call it the immediate cause of the closing of the London Stock Exchange. Sir Edward said:

"On the 18th July last, the Dresdner Bank caused a great commotion by selling its securities and by advising its clients to sell theirs. This was recognised as the first semi-official intimation of a probable European conflagration, and Berlin became apprehensive. War was declared between Austria and Servia on the 28th. People were seized with panic, and great runs took place on the Reichsbank for gold, and on the joint-stock banks of Germany for gold or notes. The Reichsbank lost 10 millions sterling or thereabouts of gold, and to prevent further loss, a measure was passed prohibiting the Bank from paying any more of its notes in gold."

Whether, as was suspected at the time, the Dresdner Bank scare was accompanied by malicious attempts to

break the London market, there can be no question as to its disastrous consequences. It knocked the bottom out of an enormous bull position, which German speculators had built up to their own peril and that of the financial world at large. If it had evil designs on London, it acted like a boomerang and speedily recoiled on its authors. At the same time, it was a poor return on the part of our German exploiters for the hospitality which Capel Court had extended to them ever since they possessed money enough to speculate with. It taught most of them their business, started them in life, and gave them the opportunities of which they generally made such good use for themselves, but not for the Stock Exchange.

Unfortunately, Germans were not the only evil-wishers that the Stock Exchange had to fear. While it was prostrate from the unexpected blow of the German exploiters, a second attack was made on it by a certain class of envious politicians at Westminster. It is no secret that they were the originators of the police measures which the Treasury is still applying to dealers in stocks. They are said to boast that this is only the beginning of their programme, and that they are not to stop until they have saddled the Stock Exchange with a charter which will reduce it to the level of a semi-political institution without either soul or body of its own. That it is open to improvement in various respects will not be denied, but it is much more capable of improving itself than its political censors are.

One of its greatest needs is to be purged of the excessive amount of foreign blood that has got into it of late years. Anyone glancing casually at its official list of members might mistake it for a polyglot society. Page after page of it shows a large proportion of foreign names—five out of fourteen, five out of twelve, seven out of twelve, and so on. The proportion would be still larger if Schmidts had not transformed themselves into Stanleys, Schneiders into Montgomeries, and Vogts into Vernons. That anglicising process became so active in the first months of the war that the Stock Exchange Committee had to interfere and order our German friends to content

themselves with their baptismal names. Taking Germans, Austrians, Poles, German Swiss, and German Americans altogether, the foreign legion appears to be much too strong for its Anglo-Saxon competitors. This is very noticeable both among Stock Exchange firms and individual members.

In Throgmorton Street and the adjacent courts there are blocks of offices with almost as many Germans as English in them. The German offices are as a rule larger than the English ones, and do bigger business. They work for Berlin, Frankfort, Amsterdam, and the chief continental bourses. They are also closely connected with the German, Austrian, and Swiss banks that finance German speculators. In this class of business they have several advantages over British members of the Stock Exchange. The latter have no chance to compete with them on the Continent, consequently British trade is very one-sided. In its financing the German firm has two strings to its bow—one here and the other abroad—while the British firm has only one. Just now it has practically none.

From the Stock Exchange proceed to the Baltic, Mincing Lane, the Wool Exchange, or any other public market in the City, and our German "guests" meet us everywhere. They permeate and often dominate rubber, oil, wool, jute, and other staple commodities. The diamond market they long ago syndicated, and they can play as they like with the goldfields of the Transvaal. They are large shareholders in our most important companies, and often directors, sometimes chairmen. How many Londoners are aware that a German financier and Privy Councillor presided till lately over the intricate coil of companies that owns nearly the whole of our underground railway system? How many know that our wireless telegraphy has got itself tied up in an Anglo-French-German Gordian knot, which may yet give the Government no small amount of trouble?

If we go farther afield in search of the irrepressible German, traces of him will be easily discovered in every commercial centre from Cardiff to Aberdeen. It was

German trawlers, who for years have had the free run of our principal fishing ports, that laid many of the mines along our east coast. The jute trade of Dundee has been allowed to get into the hands of German exporters. So also has the woollen trade of Bradford. In Glasgow, Manchester, Liverpool, Bristol, Cardiff, Swansea, and other provincial ports, large and wealthy colonies of Germans were waiting for "the day." At Sunderland a German who had been Consul for over twenty years, and had made himself so popular that he was twice elected Mayor, was caught on the outbreak of the war in the act of assisting German reservists to get away. He had previously entertained German officers and shown them all over the docks. His case was too bad even for Mr. M'Kenna, and he had to be handed over to the military authorities.

There may be scores of such "patriotic" Germans still at large. It was by mere accident that the Sunderland one was detected, and then Mr. M'Kenna, instead of clapping him in gaol, asked him to consider himself under arrest at a first-class hotel! In the suburbs of London there are mysterious Germans inhabiting large houses with extensive grounds which are rigidly closed to the public. On the south coast, close to the sea, there are similar houses. In one instance the neighbouring villagers became so suspicious of it that they threatened to raid it.

Long before the war broke out there was a German problem in the City which year by year was growing more serious. When the war is finished and peace returns that German problem will, if we are not very careful, revive in a worse form than before. But in one respect it may have improved. We shall have had our eyes opened by the events of the war to its dangerous character. From what we have seen of the Germans as fighting men, we shall understand them better as business men. We know now that they are not fair fighters, and this may explain why they have so often been unfair competitors in trade. Not only have they stolen our best business both in the Stock Exchange and in many of our staple markets, but their equivocal methods have lowered its tone and

done it no small amount of moral as well as material damage.

Even if there had been no war British traders and investors would one of these days have had a long account to settle with the Germans. As loan-mongers they have taken a heavy toll of British capital. There are German financiers still holding their heads high in Lothbury and Throgmorton Street who have caused far heavier losses than those of Baron Grant, Terah Hooley, and Whittaker Wright all put together. They have been, and probably still are, honoured in our social and political circles. Some of them adorn the Privy Council, and quite a crowd of them have found their way into the House of Commons. In the hey-day of their prosperity they were hand in glove with Cabinet Ministers. They took a prominent part in fiscal symposiums at the National Liberal Club. Their advice on City questions was more valued by the Government than that of native experts less congenial politically. Their influence on the opinions and policy of their Ministerial friends cannot have been insignificant—it may even have been considerable. When the catastrophe came, however much it affected their public relations, it cannot have altogether destroyed their private friendships.

Germans who had been prominent in politics and finance saved their face by retiring at the outbreak of war from compromising partnerships and associations. By withdrawing for a time from the public eye they hoped that not only their nationality, but their City record, would be forgotten. By maintaining a discreet silence they made it easy for their friends in office to avert popular suspicion from them and spare them the annoyance of being treated as enemy aliens. They were thus enabled to pursue their business quietly, while British-born traders were being worried on all sides with emergency regulations and restrictions. In the later stages of the war it was actually better, from a business point of view, to be a naturalised German than a mere Englishman.

This irony was carried to almost ludicrous lengths under the Treasury régime on the Stock Exchange. One

of the precautions deemed by the Treasury to be necessary to the safety of the realm was the fixing of minimum prices for certain stocks, below which they could not be dealt in by any broker or jobber. These were maintained in the American markets here long after they had been abandoned in New York. Sometimes it fell out that the official minimum was several points above the New York price at which actual dealings were taking place. In one instance—United States Steel shares—it was as much as ten points out. A buyer of Steel shares could, in these circumstances, do nothing on the London Stock Exchange. There might be plenty of sellers willing to take, say, forty-five when the official minimum was fifty, but Treasury regulations forbade them. The buyer could, however, go to a foreign house outside and get his order cabled to New York, where it would be executed and reported almost as quickly as it could be done in London. No one objects to German firms thus utilising the great advantages which they enjoy through their superior connections in New York, but why should the Treasury step in and forbid British subjects to deal on equal terms with enemy aliens, whether naturalised or not? The present situation is a financial parody of *Alice in Wonderland.* An important English institution is being made a scapegoat for its German wreckers.

By all means let the Treasury and the Stock Exchange Committee take every reasonable precaution against German sales, but let them make sure that they are not hurting English business more than German. By this time German liquidation should be far advanced. It may not have been so large to start with as was generally assumed. The writer has all along held—(1) that its original magnitude had been a good deal exaggerated, (2) that for months before the war broke out it had been undergoing rapid diminution, (3) that the liquidation process was continued for several weeks after the Stock Exchange closed, and (4) that when the House reopened on January 4, German dumping on the London market was no longer a serious danger. These views have since been

confirmed in a variety of ways and from various quarters. In the case of American stocks they could be easily tested by watching the sales made in the street between the end of July and the middle of November. Further evidence that the position had in consequence been greatly reduced was furnished by the settlement on November 18. This could not have gone through as it did without any serious trouble had the strain on the stock market not been greatly relieved.

Between November 18 and January 4, when the House was permitted to reopen under a multitude of minute restrictions imposed by the Treasury, liquidation had been carried considerably farther. Afterwards the Treasury had complete control over the Stock Exchange, and the safeguards it adopted were so stringent that it became impossible to sell more than fifty or at most a hundred shares at a time. The usual number dealt in was ten or twenty. In the beginning of February an illuminating piece of evidence as to the extent to which German liquidation had been carried was furnished by a New York cable. Under date February 10, it said:

"The belief largely prevalent on your side that Germany can raise a considerable amount of money by liquidating American securities is erroneous. Her holding of Americans is not nearly so large as is generally supposed, as may be judged by the fact that she owns less than 6000 shares in United States Steel Corporation, which has long been recognised as the most popular American security among European investors. England and Holland hold respectively 931,000 and 379,000 shares of the Steel Corporation.

"For the past two weeks Germany has been steadily selling Americans, through Holland, but the sales have not had any appreciable effect on the quotations, and it is not believed that a continuation of this liquidation will impose much strain on American finance. The fact that Germany is unloading here now is regarded as still another indication of her unsatisfactory condition, because the stocks she is now selling were purchased by her at prices from 10 to 25 per cent. higher than existing levels.

"Austria's holdings of Americans are extremely small, and her selling would not be a factor at all. United

States Steel holdings in Austria amount to only about 500 shares."[1]

The operations of the Germans in Canada have also to be taken into account. They were even more interesting than the American ones, though they may have been equally subject to exaggeration. They are understood to have embraced not only Canadian stocks, but farm lands and town lots. The Kaiser himself was credited with taking a special interest in the progress of the North-West, and to have made large investments in it under the guidance of a confidential agent on the spot. Whether he regarded these as a compliment to British rule or as a preparation for a German régime, it is hardly necessary now to conjecture. For the moment his carefully-selected Canadian investments are useless either to him or to Germany. Possibly he wishes now that he had the money in hand for war expenses.

In the indictment of our German exploiters there is a special Canadian count. It will be remembered that they took a very active part in the boom which sent Canadian Pacific shares up to nearly 300, and the old £10 shares of the Hudson's Bay Company to 130. It may be some consolation for us to know that they got well punished in that campaign. They were badly caught in Canadian Pacifics as well as in Union Pacifics. These were, in fact, their two favourite counters during the American mania, and many a German plunger has had to cut a 50 per cent. loss on them. Many more are now stuck with them until the end of the war as they can no longer be transferred out of enemy names.

It was a standing subject of wonder throughout the crisis how the Germans ever acquired the thousands and tens of thousands of Canadian Pacific shares which they unloaded during the disastrous decline from 295 to 154. Why, in the first instance, did they take such a fancy to a British-owned security over which they could hardly hope to obtain effective control, and which might, in certain events, like those that have actually happened,

[1] *Daily Telegraph*, February 11, 1915.

slip altogether through their fingers? Was it because of some desperate infatuation as to the possibility of Canada becoming Germanised? At the final break-up of the British Empire Canada would, of course, be a titbit for the Kaiser to pick up. The Monroe doctrine would be a trifling obstacle to such an acquisition, for it is not even a "scrap of paper."

Should that theory of Canadian Pacific popularity seem to the reader to be far-fetched, there is a choice of others at hand. German bulls of the stock had, no doubt, unshakable faith in its future, but they saw too its speculative possibilities. Year by year its area extended: one after another it invaded the international markets, and in many cases became their leading stock. More freely and actively than any other it circulated all over Europe. It became a favourite of the arbitragers as well as of investors. Latterly it has been a sort of international bell-wether. It could be bought or sold anywhere at any time and at fairly close prices. Nothing more suitable to lay aside for emergencies, military or otherwise. A block of Canadian Pacifics could always be liquidated, no matter where it came from.

We now know for certain that the Berlin bankers and financiers who devised the plan on which the war is being financed were well aware that they could not hope to float any important foreign loans. Even the most brilliant campaign might not get them over this difficulty, while a disappointing campaign like the one they are going through might render it insuperable. The only alternative was to provide themselves beforehand with the largest possible supply of negotiable securities, which they could sell as required or raise money upon. American stocks—including Canadian Pacifics—best fulfil these requirements. The immense sales of them made by the German banks on the eve of the war may have been partly on private account, but the largest of them may have been intended to strengthen the cash reserves of the banks.

It may therefore have been a severe blow to the Imperial Treasury when the outlet for Canadian Pacifics was

suddenly cut off by the refusal of the company to transfer any more shares out of enemy names. This was an infinitely more effective check on German liquidation than any Treasury restrictions could be. In order to raise money for war expenditure, and especially for foreign supplies, Germany's liquid assets had to be realised. At whatever sacrifice, saleable securities had to be sold or pawned. But most of these large pawning operations were carried through in New York. The financial district of New York is full of wealthy Germans or German-Americans, who amongst themselves could raise millions of dollars for the Kaiser if he gave them the right kind of collateral and a satisfactory rate of interest. But for the British navy they could have loaded any number of neutral steamers for him with whatever he needs in the way of armaments or munitions of war.

From the above facts two important conclusions may be drawn as to Germany's method of unloading its American stocks—first, that the bulk of it was done before the war commenced; second, that the completion of it was effected chiefly through Amsterdam and New York. Any check that could have been applied to it in London would have had so little effect as to be hardly worth the trouble taken over it. Treasury regulations of any kind would have been futile, and those actually issued were far more embarrassing to our own market than to Berlin.

The Stock Exchange Committee, in circulating them among the members, disclaimed responsibility for them. They were not preceded by consultation with experienced dealers in the several markets affected. The Treasury and the Committee could in a single week have ascertained at first hand how business has hitherto been conducted between London and Berlin, London and Amsterdam, and London and New York. They might not only have cross-examined the principal dealers and learned their views, but they could have inspected their books and judged for themselves what danger there was of surreptitious German trading. The Treasury had another and more definite clue in its possession. Three German banks—the Deutsche, the Dresdner, and the

Disconto Gesellschaft—had had their London branches wound up under Government inspection, and surely their books, especially those of the Dresdner Bank, could have told some interesting stories about the colossal stock operations of Berlin on the eve of the war. The fact that the three banks were able within a few weeks to pay off all their liabilities in this country indicates that there had been heavy liquidation going on among their customers immediately before the war. We may reasonably infer that there would be so much less to do afterwards.

But, to go a step farther, granting that when the war broke out the Germans had had masses of stock of one kind or another to realise, it did not at all follow that their best plan would be to dump them here. On the contrary, this was the most difficult and least convenient market for them. Even if it had been quite free, it would only have bought stocks at tempting prices, and could only have paid for them by devious and roundabout channels. German sellers did not intend to accumulate money here at the risk of being impounded by the British Government. In New York there were none of these risks and difficulties to fear. German money would be invaluable there for buying war materials, equipment, food, &c. The stocks sold through Holland or Italy could be immediately converted into American goods, which could be shipped to Germany by the same routes. Always reckoning, of course, with the British navy.

The real centre of German financial juggling has been New York, and the British Government, by fixing its eyes on London, which has been quite a secondary point, may have allowed itself to be drawn on a wrong scent. It may have been picking up needles and allowing the camels to slip through. Half a dozen German bankers in New York can do more for the Fatherland than all the German members of the London Stock Exchange put together. That they have been very busy during the war, both above and below ground, we have every now and then had characteristic evidence. The most active and powerful group has as its head Mr. James Speyer, the bosom

friend of Count Bernsdorff and Herr Dernburg. It includes Mr. Jacob Schiff, of Kuhn, Loeb & Company, Mr. Paul Warburg, formerly of the same firm, but now a member of the Federal Bank Reserve Board, and his brother, who is managing director of the German Trans-atlantic Steamship Transport Company. A galaxy of wealth, skill, and financial power.

How these astute German-Americans must be amused at the swarm of little traps which have been set in every corner of the London Stock Exchange in order to prevent Berlin dumping on us twenty or thirty Union Pacifics now and then, and so helping the Kaiser to prolong the war! When they were relieving Berlin of its load, they took Union Pacifics in thousands at a time. If it had thousands more to sell they would contrive to do something with them and to pay over the money. If they could not buy them outright they would make advances on them with very safe margins. Even stocks like Canadian Pacifics, which cannot be transferred out of German or Austrian names, continued to be negotiable at a price. Dividends, not being payable to aliens, might be held up for two or three years, but that drawback could also be allowed for.

While the New York Stock Exchange was closed, Canadian Pacifics standing in enemy alien names are said to have been sold at thirty points or more under the regular price. This was the worst blow that Berlin had to suffer, and even it might have been avoided if the Canadian Pacific Company had not closed its register against enemy aliens soon after the war began. No such difficulty arose in connection with any American stocks. Even when Wall Street was closed the German-American millionaires could always do something with them. When Wall Street got into full work again Germany could resume her liquidating operations as freely as ever. The *Daily Telegraph* cable above quoted shows that in February they were taking full advantage of the facilities which New York offered them.

The close connection between these Wall Street magnates and the Ship Purchasing Bill in Congress deserves

special notice. Undoubtedly the latter originated with German-Americans, partly for financial and partly for political reasons. It offered a splendid prospect of assisting Count Bernsdorff's propaganda and at the same time of getting the interned German liners released. Mr. Warburg's German Transatlantic Steamship Company owned twenty-four of the interned ships, and had thus a substantial interest in the fate of the Bill. No doubt he hoped that getting them into the hands of the United States Government would be a first step towards their return to German ownership. Desperately as he and his friends fought for this, they have again had their usual ill-luck.

CHAPTER XIV

PUBLIC CONTRACTS

GOVERNMENTS, large and small—imperial, national, and local—have too often been considered fair game for contractors. Government labour has also had the advantage of other labour in not being expected to be either so punctual or so conscientious. Previous to the Clyde strikes it was, however, hoped that the world was improving in these respects. In ordinary everyday affairs it probably is, but now and then emergencies arise which break away from the normal code of ethics. The greatest of these economic disturbances is caused by war, and no country has hitherto suffered so severely in that way as the United Kingdom. The British soldier, both in peace and war, is the most costly fighting man in the world, except perhaps the American. He costs more to arm, more to clothe, more to feed, and more to move about than the soldiers of any other nation. Compared with the machine-made German army, for which every item of equipment, armament, and commissariat has been thought out beforehand, the British forces in the field will average per man per day at least double the German rate of expenditure, probably more. In borrowing, which is so far the only available test of outlay, we with our relatively small force are well ahead of all the other belligerents. When we boast about our silver bullets and "the last million that tells," they may effeetively retort on us that the belligerent who gets most for his money has also a pull on those who get least.

Be that as it may, there is no richer field anywhere for expert Government contractors than the United Kingdom, and within the United Kingdom the most luscious spot of all is the War Office. The commereial branch of the

War Office is the most unregenerate of British institutions. It is always being reformed, and is frequently being reorganised from top to bottom, but it is soon back again smiling—the same old War Office. When war overtakes it, it is invariably caught napping, and with several years' arrears of its most necessary work to catch up. So it happened in the Crimea, and again in the Boer War. To what extent is it going to repeat itself in this Armageddon of 1914–15? At a comparatively early period ominous indications began to appear, but public vigilance is much greater now than it was either in the Crimea or South Africa. The contracting scandals and blunders of those days are no longer conceivable, but it would be rash to deny that there may be a partial recurrence of them.

If on one hand the business methods of the War Office are no longer so unlike private business as they used to be, on the other hand its work has increased tenfold. The unscrupulous contractor never had so many tempting opportunities as are being thrown at him to-day. But the honest contractor is still hampered and handicapped by hard-and-fast rules which would never occur to anybody but a Government inspector or the head of a public department. Whether they be good or bad—and the chances are pretty even either way—they entail extra expense, which comes in due course out of the pocket of the taxpayer. Quite as disastrous mistakes may be made in the equipment of an army as in its leadership in the field. Our experience in the Boer War proved how numerous and varied they may be.

1. Preparations may have been postponed to the last minute—a British rule almost without any exception.

2. Then they may have been started in a panic, and a long series of ghastly blunders may have been the immediate result.

3. When a war panic is raging, war prices have to be paid for everything, from heavy guns to saddlery and safety-matches. Extra penalty for the taxpayers—from 20 to 100 per cent. over normal rates.

4. Great quantities of the articles bought and sent out

in a hurry may not be suitable. Many of them may be absolutely useless, and some of them absurd.

5. The commencement of military operations may be gravely delayed by lack of adequate equipment, transport, and other requisites.

6. Strategical advantages may be sacrificed by allowing the enemy to be first in the field.

7. Most serious consequence of all, a costly war may be lengthened to a ruinous extent by making an ill-prepared and inefficient start. The Boer War should have taught us that lesson once and for all, but we have now to learn it over again.

It is suspected that Government contractors are to-day reaping another rich harvest, but if so it was the Government that sowed it for them. Any private person who managed his business on War Office lines would have to pay the same penalty. If War Office methods have not improved immensely since 1902, the penalty for them on this occasion may be terrific. Already the scope for "contractors' cream" is ten times as large as it ever was in South Africa, and before we are done with it, it may be even larger. The record of War Office achievements on the eve of the Boer War is, therefore, worth reading over again for warning and instruction. It is to be found on the usual shelf—in the official report of a Royal Commission of Inquiry. First sample:

"It had always been assumed by the Treasury that when a war was once in progress the manufacturing resources of the country would be sufficient to supply any wants of the army. Entrenched behind this optimistic illusion, the Treasury had steadily refused to make grants for stores. When the mobilisation approached, according to the now famous report of Sir H. Brackenbury, it was found that the supply of helmets, woollen clothing, khaki great-coats, woollen drawers, and boots was insufficient. There were large reserves of red and blue clothing, colours unsuited to modern war. There was a fair quantity of khaki cotton clothing, but the clothing suitable for South Africa was wanting. Yet war had been seen coming for months or years." [1]

[1] "*Daily Mail*" *Summary of the Report of the Royal Commission on the South African War*, p. 14.

The following account of the "rush orders" which had to be sent east, west, north, and south may find some parallels in recent War Office experience.

"The orders for these indispensable requisites had to be given at the last moment, at a greatly enhanced cost. Cloth for uniforms had to be taken off the looms, and even so, there was such delay that three divisions took the field clad in cotton. The state of affairs was worse when it came to ammunition and arms. The rifles in reserve were found to be wrongly sighted, so that they shot 18 in. wrong in 200 yards, and this defect was only discovered when they were issued to the yeomanry. Of field artillery there was only one battery in reserve in December 1900. Of horse artillery there was only one experimental battery in reserve. Of 5 in. howitzers there was only one gun in reserve, and two had to be taken from fortresses to replace casualties." [1]

One feature of the bad plight we were in then specially deserves to be recalled. It was the scurvy treatment we received from certain of our Continental friends, Germany in particular. They would not even sell us guns or war material until they found that we were independent of them :

"Purchases had to be made in every direction outside England ; tents, felling axes, saddlery, and vehicles had to be obtained abroad ; and sometimes foreign manufacturers refused to supply this country. Krupp, for example, would not sell to the War Office cannon and material ; and it was not till late in the war that the British Government was able to buy from Germany the eighteen batteries of quick-firing guns, which showed, in Lord Roberts's words, 'how far the German experts were in advance of ourselves in the adoption of the quick-firing field gun.'" [2]

These shameful disclosures mark the depth of ineptitude to which the commercial side of the War Office had sunk on the eve of the Boer War. Costly as that proved, it may have been a cheap lesson to prepare us

[1] "*Daily Mail*" *Summary of the Report of the Royal Commission on the South African War*, p. 14.

[2] *Ibid.*, p. 15.

for the far greater effort that was to be demanded of us fourteen years later. From this point of view we may almost regard it as a blessing in disguise. So may also the Russians regard their Japanese disasters of 1904.

The War Office itself can hardly have forgotten the lesson of these "ghastly blunders," which very nearly cost us the Transvaal, and perhaps even the whole of South Africa. The Government contractors who made fortunes out of them must know that in the present temper of the people it would be dangerous to sacrifice the national safety to their own profit. They must also see that if the House of Commons is as obtuse as ever, they have a more vigilant Press to deal with. Ministerial and Opposition organs are vying with each other in the hunt for suspicious features in any of the hundred and one different branches of military administration. Already they have found a few, which they are making the most of, and as yet the Censor has not interfered with them. But as the war proceeds, the troubles of the Government contractor may increase.

Just as in the Boer War, but on a far larger scale and in more varied forms, the clothing crisis was the most acute. One alarm after another was started about a wool famine, a khaki famine, and an aniline-dye famine. The two first were due partly to the enormous amount of clothing of all sorts required for Kitchener's armies, but chiefly to the huge lock-up of wool in the Australian ports. While prices were shooting up in Yorkshire they were dwindling in Melbourne and Sydney because of the lack of steamers to bring home the wool. The current year's clip had been good, but freight was unobtainable for its shipment. If the Prize Court had been set to work weeks earlier scores of interned vessels might have been condemned and handed over to some public authority for employment. But no Minister seems to have thought of that.

With the very limited and fragmentary details as yet available, it is impossible to form more than a vague idea of the war contracts that have been entered into by the various military departments. The corresponding opera-

tions that took place during the Boer campaign afford no reliable standard of comparison. Huge as they were, they were a flea-bite to those of the past year. Neither were the purchasing conditions half so difficult as those of to-day. Then Germany and France were open to us, though grudgingly. Now Germany is hermetically sealed by the British navy. The chief industrial centre of France has been laid waste by the Germans. Belgium, from which large supplies might have been easily drawn, is in the same plight as Northern France. Russia, instead of being able to feed us as usual, has to be furnished with arms, ammunition, and clothing for her troops. The French army can often be more economically supplied from England than from its own soil.

These foreign demands on us must have added enormously to the strain on our resources and the difficulty of using them to the best advantage. Bold measures had evidently to be taken in order to overcome so desperate a situation. These included some notable innovations which upset existing interests and provoked vigorous controversy. There is a good deal to be said in defence of officials, hitherto accustomed to deal at their leisure in thousands of pounds, losing their heads when suddenly called upon to make contracts running into millions. Only two alternatives were open to them, and it need not surprise us if they sometimes chose the wrong one. The first and best was to make a direct appeal on patriotic grounds to the various classes of traders and contractors for their advice and co-operation. These were to be had for the asking, and in some cases without asking, as they had been already volunteered by important Chambers of Commerce. In the end they had to be accepted after a good deal of friction and misunderstanding which might have been avoided.

The second alternative was for the overwrought department to put itself in the hands of an outside expert and give him *carte blanche* to purchase for it. This course had a false appearance of simplicity and economy to recommend it against which some serious drawbacks had to be set. It antagonised instead of conciliating the

leading members of the affected trades. It excited suspicion in the popular mind and challenged criticism both in the press and the House of Commons. The discussion of disputed contracts was liable to cause delays in the provision of much-needed supplies for the army and navy. Complaints and controversies ensued which were very damaging to the commercial reputation of the public services. Even when it could be proved that the exclusive purchasing agency had saved money for the department on certain transactions, it did not necessarily follow that it would always save money or that it would answer best as a permanent policy.

The true interest of a great department like the War Office is obviously to be in direct touch with the largest possible number of traders on whom it has to depend for its commercial needs. To keep them at arm's length, and allow them to deal with it only through an exclusive purchasing agent, may easily become penny wise and pound foolish. When the exclusive purchasing agent is found to be pocketing a good deal more in commissions than the traders would expect as profits, the arrangement ceases to be even penny wise. In the Meyer case it ultimately transpired that three of the leading firms in the timber trade offered to do for nothing what he got 5 per cent. commission for doing. In making this offer they were acting with the authority of the Timber Trade Federation as a whole. The £15,000 which Mr. Meyer pocketed as the reward of three or four months' work might consequently have been saved by the exercise of a little more tact on the part of the Board of Works.

The timber-buying monopoly captured by the lucky Mr. Meyer is only one of several instances that have come to light of special powers being delegated to members of particular trades to do all the buying in those trades. On November 24 the *Daily News*, in an article on "The War Office and Army Contracts," announced that "Mr. Robert Glanfield, of the firm of Messrs. G. Glanfield and Sons, has been given complete control of the supply of clothing for Kitchener's army. He is Secretary of the Wholesale Clothiers' Federation." The same article

referred to a rumour that orders for a million soldiers' suits had gone to America. When the Financial Secretary to the War Office was challenged about this by an official of the Labour Party, he is said to have admitted the fact, and to have justified it on the ground that a prompt and adequate supply could not be obtained at home.

Having once begun, the stream of British Government orders to the States grew rapidly. It may be assumed that these were under even more slender control than orders placed at home. The delegation plan was once more resorted to, this time in very comprehensive fashion. The buying, shipping, and financing of these American orders were all committed to the care of a firm of New York bankers and financial agents. What made this arrangement the more surprising was the fact that enormous contracts had previously been placed in the United States for military supplies. Boots had been ordered by the million in New England, and some of the Chicago packing houses were working almost entirely for the British army.

Judging by its indifferent success at home, the War Office may have found itself overtaxed by these huge contracts. At such a distance and under wholly strange conditions they would be difficult even for a business firm to supervise, let alone an official staff bound by departmental rules and traditions. Perhaps handing over the entire business to Messrs. J. P. Morgan & Company was the best thing that could be done in the circumstances, but it can hardly be said to reflect credit on the business capacity of our Commissariat service. If, as is not impossible, the arrangement turns out to be very lucrative for the purchasing agents, and correspondingly costly to the British taxpayer, it will be a sharp lesson for us on the value of commercial as distinguished from political administration.

It may, however, have redeeming points. It will, for example, furnish an opportunity of comparing British and American methods of feeding and clothing armies. Whatever defects the American system may disclose, there will be none of the red tape which seems to be so

difficult to kill at home even in the throes of war. At least it will show no parallel to the inner history of our army clothing factory at Pimlico. The manufacturers, contractors, and others who have been working day and night for that institution will have some curious experiences to narrate to the inevitable Commission of Inquiry which will sit upon it at the close of the war. How buying limits were fixed below the market prices of the day, and raised from time to time, but just too late to overtake them. How hard and fast specifications were adhered to when only inferior articles could be got to comply with them exactly. How competitive buyers from Pimlico, from County Territorial Associations, from colonels of regiments, and from private speculators all rushed into the market together and bid up prices helter-skelter—all that will come out in due time.

The clothing of the British army is a more wonderful example of Adam Smith's favourite theory of the division of labour than the pinmaking one which he used and made one of the classic passages in the reading-books of our grandfathers. The Pimlico factory has, of course, the lion's share of the providing, but the regiments are allowed to supply themselves with underwear and other minor articles. The War Office names a maximum price for each article, beyond which they must not go. When markets are rising it has to raise its limits, but at the outset of the khaki boom they literally ran away from it. Before it had time to wire to regimental colonels that 20 per cent. more might be paid for certain articles, they had jumped 30 or 40 per cent., and were farther out of reach than ever.

Cardigan jackets had a lively time during the boom. Their normal price was 4*s.* 6*d.*, but they suddenly jumped to 5*s.* 6*d.*, 6*s.*, and even higher. One considerable purchase is said to have been made at 8*s.* 6*d.* Dealers rushed around among the smaller manufacturers and bought up their whole stocks—1000, 1500, or 2000 jackets at a time. Then they offered them at a big profit to the War Office, to colonels of regiments, and to County Associations. In order to foil them, the War Office had to resort to a

Kitchener stroke and commandeer manufacturers' stocks right and left. In many cases this caused a lot of grumbling as it virtually stopped the manufacturer's business in the classes of goods commandeered. He could not fulfil customers' orders until his stock was replenished. Even then he was not safe from further commandeering.

These worries were loyally borne and as cheerfully as might be. But it could not escape notice that often they might have been avoided by better management and greater foresight. It was the hard-and-fast red tape, however, that galled most. For example, when the blanket famine was on, blankets of the regulation size were soon cleared out. But plenty of the second size—about two inches shorter—were to be had. Instead of taking these the War Office allowed itself to be taken in by Jews who bought a lot of cheap stuff that looked like blankets and cut it up into the regulation lengths. They were duly accepted and paid for at the price of first-class blankets, though the wearers would soon discover that they were hardly even third-class. Respectable army contractors naturally resent such competition.

During the emergency period Government operations met with very little criticism either in Parliament or the press. But in business circles grumbling enough was to be heard. Even the most resolute loyalty could not restrain it altogether. Among Chambers of Commerce War Office contracts were a frequent subject of discussion. Early in the war the Manchester Chamber was so impressed with the danger of a repetition of the South African scandals that it addressed to every member of the Cabinet a warning letter.

A widespread feeling, it said, "prevails in commercial circles that army contracts are frequently placed at much higher prices than would be obtainable were more expert knowledge in the particular trades concerned at the service of the Department. Confidential information is constantly reaching members of this Chamber in proof of that. There is also a strong belief that such further knowledge would be found highly useful not only in regard to prices, but also in widening the sources of supply. As

has been pointed out by Mr. Lloyd George, the issues of this war may ultimately be determined by the respective ability of the belligerents to bear the economic strain. It is therefore essential that every possible precaution should be taken in order that the inevitably huge expenditure may be guided by men with business training and experience. Such men all over the country who are unable to join the army are anxious to help in the crisis, and would deem it an honour to place their experience freely at the service of their country."

The authors of this friendly warning to the Government did not stop at a bald offer of help. They proceeded to outline a scheme of advisory committees which could be immediately brought into operation throughout the country. Their main suggestions were :

"1. That a strong Advisory Commercial Committee, composed of, say, half a dozen leading business men, should be appointed in London to act in conjunction with the War Office in the placing of contracts.

"2. That small Advisory Committees in various centres, such as Lancashire, Yorkshire, Leicestershire, and Northamptonshire, where army contracts are largely placed, should likewise be appointed, upon which experts in the trades of the different districts should be invited to serve. Such Committees to be consulted by the Central Advisory Committee in regard to the placing of contracts for goods upon which they are specially qualified to advise."

If the above friendly suggestion had been promptly and frankly accepted by the Cabinet, several subsequent alarms and controversies might have been avoided. It might have prevented the Meyer contract and the friction caused thereby between the Board of Works and the timber trade, to say nothing of the wordy war that followed in the House of Commons. It might have found a better solution of the aniline-dye problem than a half public and half private company, which hangs between heaven and earth like Mahomet's coffin. It might also have obviated the startling appeal which Mr. Lloyd George had to make a few months later for more shells and less alcohol.

It is fair to add that later on the Chambers of Commerce were better appreciated at Whitehall than they had been at the beginning. When the officials had made a few serious blunders, they realised their limitations, and accepted the commercial help which had all the while been at their command. The Chambers of Commerce, and the London Chamber in particular, placed themselves unreservedly at the public service in connection with all business questions arising out of the war. Committees sat day by day making special inquiries. Circulars were issued at short intervals supplying members and others with valuable information on matters of law and of fact. Frequent consultations were held on special subjects with representatives of the Board of Trade and other departments. In the end a good understanding was established between official and commercial experts.

CHAPTER XV

STATE TRADING VENTURES

THE war of nations not only broke all military records, but it upset many preconceptions as to the proper functions of a national Government. Socialists suddenly found themselves in the embrace of a State which had, without saying "by your leave," put some of their wildest dreams in everyday practice. In taking over railways, commandeering ships, guaranteeing bills of exchange, launching into huge commercial contracts, and in a score of other ways, it proved itself more socialistic than the socialists themselves. Thus a rare opportunity was offered to the world to see State Socialism at its best. A sympathetic Cabinet, supported by a submissive House of Commons, had a free hand to buy, sell, borrow, and exploit the credit of the nation in every kind of emergency that eould arise out of a great war. The principal members of this privileged Cabinet had the courage of their opportunities, and never hesitated to make full use of them.

We have seen how they exercised their almost boundless authority in various branches of administration. It will be even more interesting to follow them into the field of commerce and study their business methods. There are certain fundamental principles with which, in justice to private traders, they might have been expected to comply, as, for instance, to disturb the normal course of trade as little as possible; to give as long notice as they possibly could of their intention to adopt exceptional measures of any kind; and, in short, to "play the game" according to its recognised rules and customs. Where they have not done this—and the most scrupulous of Ministers might in such a struggle for life as we are

now carrying on have often strained their authority—subsequent investigation and redress should be assured.

So many extraordinary steps never dreamt of before have had to be taken, and their consequences have been so unexpected that the most experienced traders, let alone Government officials, might have failed to forecast them. Sometimes they have turned out in favour of the Government, but more frequently perhaps the other way. The biggest venture of all, and the one which was most enthusiastically hailed as a master-stroke of war finance, landed the Government in serious trouble with the sugar trade. *Per contra* the one which should have first suggested itself, and which had the greatest assurance of success, was quite overlooked, notwithstanding that the attention of the Prime Minister had been called to it by Mr. Bonar Law before the war broke out. If in September last the Government had invested £18,000,000 in wheat instead of in sugar, the prices of both articles might have been very different from what they were in the following February. Wheat might not have shot up as it did, and the loaf along with it. Nor might sugar have fallen as far as it did, with substantial loss to the Treasury.

In the debate in the House of Commons on the increased cost of living (February 11, 1915) Mr. Bonar Law made a very damaging exposure of the results of the Government's preference for sugar to wheat as a national asset:

"There is," he said, "one thing that the Government could have done, and ought to have done. On two occasions they could have stepped in and themselves made large purchases of wheat for the benefit of the community. The first occasion was on the outbreak of the war. The other was when they knew, as we see now from the despatches, long before the public did, that Turkey was going to join in the war against us, and that supplies from the Black Sea would be stopped. It would only have been a reasonable precaution. It may be said that the best thing to do was to leave things to their natural course. At a time like this I do not think so; and the Government did not think so, for they bought sugar. They bought it at a time when it had already reached a very

high price. That did not apply to wheat at the beginning of the war. If they had made purchases to the fullest extent possible, without forcing up the market, they would have had a supply available to-day, and the knowledge of that would in itself have prevented speculation and to a large extent counteracted the rise in price."

Mr. Bonar Law added that before we had declared war he went to the Prime Minister and another of his colleagues and urged them to take that step. "They considered it for a while, but they did not carry it out. I think it was a pity." Surely some further light should be thrown on the reasons of the Government for not taking Mr. Bonar Law's wise advice. One of them may be that they were absorbed at the time in a foreign exchange manipulation which, after the leading financial experts of London, New York, and Washington had puzzled over it for weeks, was allowed to drop like a dead fish. At the outset of the crisis sterling exchange in New York—that is, the price of the pound sterling in dollars—became so dear that remittances to London could not be made unless at a heavy premium. From its normal level of $4.86 cents it jumped up to $5—an increase of 14 cents or *7d.* on each £1.

The proper remedy for this lopsided condition of sterling exchange was either to hurry forward American exports or to ship gold, but at this particular juncture the first was impossible and the second very unpopular. The cotton crop was not to be available for several weeks, and the New York banks were afraid to part with their gold. They were quite willing to create a special gold fund to be drawn against in London, and $100,000,000 was actually subscribed for that purpose. But they would not part with the gold itself. Thus a complete deadlock arose between American debtors and British creditors, to the great obstruction of business between the two countries. So much concerned was the Treasury about this that it sent over to America two special delegates, Sir George Paish and Mr. Basil Blackett, to concert measures for solving the deadlock and bringing down sterling exchange to a normal level.

This mission was a most unusual and unconventional proceeding. Some remarkable people, official and financial, took part in it. The leading man on the American side was President Wilson's son-in-law, Mr. M'Adoo, the Secretary to the Treasury. He was at the time engaged in preparing for Congress the notorious Ship Purchase Bill which was so warmly backed by the Schiff, Warburg, and Derenberg fraternity in New York. It is funny to think of him devoting alternate days to Sir George Paish and Mr. Jacob Schiff: labouring to-day on the sterling exchange problem and to-morrow on the release of the interned German liners. The fate of the Treasury mission may be best left to its American chroniclers. A very sane and solid New York weekly—the *Commercial and Financial Chronicle*, gave it a lukewarm obituary in its issue of December 19, 1914. Of course the American side of the case is here very strongly stated, and all its contentions cannot be admitted—especially as regards the moratorium. But on the main point—that the Treasury mission was a mistake, and the prolonged conferences at New York and Washington futile—there will be a general agreement on both sides of the Atlantic. Subjoined are the principal passages in the *Commercial and Financial Chronicle's* review of them:

"Announcement has come the present week that the 'financial conferences' initiated in October, when the British Treasury delegates, Sir George Paish and Basil B. Blackett, arrived in this country for the purpose of conferring with the officials of the United States Treasury, had been definitely abandoned, 'the representatives of both having now reached the conclusion that such measures are unnecessary, and that it will be best to leave the settlement of the United States indebtedness to Great Britain to the parties directly concerned, and to the operation of natural agencies.' This is horse sense. It has long been evident that such an outcome of these conferences and negotiations was inevitable. Indeed, careful students of affairs have never been able to see the slightest need for such negotiations. Whatever the purpose, the effect was to create an entirely wrong impression on the part of the public as to the position of the United States.

"Reports have had it that the subject of discussion at the conferences was a plan for establishing a credit of $100,000,000 in London, which could be used in meeting American obligations abroad. If such a plan was under consideration, there was never any occasion for it, as subsequent events have proved. What the United States wanted, and had the right to ask for, was, not the establishment of any new credits abroad, but that the credits already existing there in favour of this country should be given recognition and allowed to have proper effect in the adjustment of the trade indebtedness of the two countries through the foreign exchanges. Those who opposed further shipments of gold from this side in the adjustment of our foreign indebtedness did so on the sole ground that no shipments of the metal would be necessary, bearing in mind the large shipments of gold previously made, if what Great Britain owed us, but the collection and payment of which was being deferred by the operation of the British moratorium, were allowed to count as offset to what we owed, or seemed likely to owe, to the mother country. At the risk of wearying the reader, we will repeat what we have so many times previously said on this subject. Repetition is justified by the fact that fallacies regarding the matter are so deep-rooted that it seems impossible to eradicate them. The moment the British moratorium was declared, immediately upon the outbreak of war, it became impossible for American bankers to draw against their balances in Great Britain. Entirely new balances had to be established against which the moratorium would not apply. The moratorium was originally for one month from August 4. Had it not been prolonged, the foreign exchange situation would have adjusted itself early in September. But it was extended for another month, and then partially extended for still another month, and did not finally terminate until November 4.

"Not only was it impossible for foreign bankers during all this time to draw against their balances in Great Britain, but the moratorium also rendered it out of the question for American creditors to collect any bills or debts due them in Great Britain. Finally, there was an enormous volume of bills of exchange (representing exports from the United States) maturing month by month while the moratorium was in force on which also it was impossible to enforce collection. Altogether there was an aggregate of several hundred million

dollars due the United States, and which was placed entirely beyond the reach of our people for the time being.

"It happened that the United States had some large amounts of obligations maturing in the closing months of the year. Great Britain did not say, Don't bother about these maturing obligations until we are in a position to meet our own obligations to you, payment of which has been postponed by the moratorium. On the contrary, it said, You must pay these obligations in actual gold, or be considered a defaulter. It would not consent to the creation of a credit here in its favour, which later could be used in liquidation of Great Britain's pre-moratorium debts to us. How this situation was met is well known. J. P. Morgan & Co. and Kuhn, Loeb, & Co., formed a $100,100,000 syndicate to take care of New York City's maturing obligations, and there was also formed a gold pool for $100,000,000, to correct the dislocation of the foreign exchange market. The latter was called upon to ship only $10,000,000 or $12,000,000 gold, and the New York City loan syndicate also found it possible to do without shipments of gold when calling the last three instalments of the subscriptions from the banks.

"The improvement was brought about entirely by the fact that pre-moratorium bills of exchange began running off on Oct. 17, and became available in increasing amount each day thereafter, and that the general moratorium definitely expired on November 4, though the final effects as to bills of exchange did not pass away until December 3. From the moment in October when the first of the extended bills of exchange became payable, the exchange market weakened, and it has been weak ever since. This being the true explanation, it is rather amusing to find the despatches saying that further conferences with the British Treasury representatives are deemed unnecessary, since our merchandise exports are of such extraordinary magnitude. The truth is that with our cotton shipments and values so heavily reduced, and with our copper and our oil shipments also greatly restricted—the wheat exports alone being of heavy volume and value—the trade balance in favour of the United States is far less than the ordinary at this season of the year, having amounted for the five months to November 30, to only $127,331,849, against no less than $355,556,301 in the corresponding five months of 1913. Indeed, unless our merchandise exports shall again rise to their old-time volume, it is very much to be feared that

the gold export question will come up anew to trouble us later on."[1]

When the British and American Treasuries abandoned their well-meant but unfortunate attempts to create an artificial exchange between the two countries, Nature began to assert herself again, and the dollar gradually returned to its normal value. It did not even stop there, but went on rising in relation to the pound sterling until the tables were completely turned against London. It was now London that had to be protected from inconvenient demands for gold. The pound sterling had fallen in five months from $5 to $4.80—a loss of 10*d.* in the pound for us and a gain of 20 cents for the Americans. In the same period wheat had risen in Chicago from 90 cents per bushel to 160 cents. Atlantic freights had more than doubled, and the cost of living had proportionately increased.

If the Government had taken Mr. Bonar Law's advice at the beginning of the war, and bought wheat instead of sugar, for the £18,000,000 sunk in sugar they might have got 100 million bushels at an average price of 90 cents per bushel. They might have paid for it with bills on London which would have sold in New York at the rate of $5 per pound sterling. Incidentally they would have relieved the deadlock in sterling exchange, and saved the Treasury all the trouble of its exchange-manipulating expedition to New York and Washington. Fifty million dollars worth of American wheat at New York and as much more Canadian wheat at Montreal would have relieved the exchange deadlock much more quickly and effectively than as many millions of gold at Ottawa.

One hundred million bushels of wheat bought in New York when the war began would have cost—at 90 cents per bushel—$90,000,000. To-day[2] an equal quantity would cost $160,000,000—or $70,000,000 more. When the war broke out sterling exchange for $90,000,000 could have been obtained for £18,000,000. To-day it

[1] New York *Financial Chronicle*, December 19, 1914.
[2] March 1915.

would take £33,333,000 to purchase exchange at $4.80 for $160,000,000. When Governments take to "emergency" speculation, and have millions sterling to play with, their gains or losses have to be proportionately large. On this occasion a splendid opportunity was missed of securing a large supply of cheap wheat, and at the same time of restoring the exchange between New York and London to a normal condition.

Unfortunately, the legal gentlemen in the Cabinet decided against wheat and went in headlong for a big deal in sugar. It started with a great flourish of headlines in the morning papers, of which the following is a comparatively modest specimen :

"SUGAR FAMINE AVERTED

"£18,000,000 TRANSACTION.—GOVERNMENT'S RECORD PURCHASE

"We understand that in order to avoid a sugar famine in consequence of the cessation of the supply of beet sugar from Germany, Austria, and Belgium, Mr. McKenna (Home Secretary) has purchased 900,000 tons of raw sugar at about £20 per ton, the transaction involving an outlay of about £18,000,000.

"The sugar has been purchased in Demerara, Java, Mauritius, and other places.

"This is by far the largest purchase of sugar which has ever been made in the world's history. The sugar is to be sold practically at cost price to the refiners, who by arrangement with the Government have agreed to sell the commodity when refined to the dealers at a fixed price based upon the cost of the raw article plus a fair manufacturing profit.

"It is believed that the arrangement will tend to decrease the existing retail prices, or, at any rate, that it will prevent any increase."[1]

Ministers had very mixed luck in their various trading ventures, but that is no reason for hushing them up. It is rather an unanswerable argument for thorough in-

[1] *Daily Telegraph*, August 14, 1914.

vestigation. Though some people still talk of the war that is to end war, there is too much reason to fear that they are deluding themselves, as they have so often done before. In any case, it is no less necessary to collect and scrutinise every scrap of evidence as to the management of the war. The sugar episode, though less dramatic than the one in the bill market, had a more interesting development. It affected the food of the people, which was even more important for them than money or foreign exchange. But the two problems were quite different; they were, in fact, opposites of each other. While Lombard Street suffered from a glut of bills and acceptances, the sugar market was threatened with possible famine.

The war had hardly begun when a food scare broke out and famine prices prevailed. It was aggravated in many places by unwise and unpatriotic hoarding. Sugar was particularly affected by the scare, as it is one of the staple commodities which in peace times are generally over-abundant. It is sold both by wholesalers and retailers on a very narrow margin of profit. Cheap sugar was consequently one of the peculiar privileges of the British housewife. Dear sugar was almost unthinkable, and when it shot up at a day's notice to twice or three times its ordinary price, there was commotion in every household. The Government had perforce to intervene, and it did so emphatically. It fixed maximum prices for sugar and other necessaries of life, but there was a further question—Could it ensure ample supplies at its maximum prices? This involved heroic action, and, as in the case of the guaranteed bills, Ministers not only rose to the occasion, but, as we have seen, they considerably overleaped it. In the excitement of the moment, heroic enterprise overshot itself and defeated its own end.

In reviewing the sugar episode, two contradictory verdicts are now being passed upon it by professional authorities. One set of them, looking chiefly at the immediate effect of Government intervention, say that millions of pounds were saved by it to sugar consumers. Another set, looking back on it from a distance of six

months, complain strongly of the dislocation and tantalising uncertainty it caused in the sugar trade. In their annual review of 1914 Messrs. Henry Tate & Sons thus describe the first effects of the war on the refined sugar position :

"The estimates of crops were quite normal, and with plenty of sugar offering, there was no special feature in the market. This position was maintained until the outbreak of war. Prices then fluctuated violently, and all contracts for beet which had been bought for the United Kingdom for shipment from the Continent were cancelled. The price for first marks granulated advanced from 15*s.* per cwt. at the end of July to 35*s.* and 40*s.* per cwt. in August 5. Some sugar in Scotland was sold at 55*s.* per cwt. just previous to the Government taking the matter in hand. The result of the Government's action has been to save millions of pounds sterling to the British consumer, and prices are now—cubes 30*s.* 6*d.* per cwt., granulated 27*s.* 6*d.* per cwt.—a reduction of 2*s.* 6*d.* per cwt. since the war began."

That is the favourable side of the case very fairly and correctly stated by a leading firm in the sugar trade. But there is a reverse side to the picture which has been quite as strongly painted by well-known authorities on the other side. They charge the Government, or rather, the special Commission which was appointed to deal with the subject, with buying in a panic and at such a furious rate as to swamp the market for the remainder of the year. It cabled buying orders to Cuba, Java, the British colonies, and every cane-sugar raising country. In very little time it had secured a forward supply of 900,000 or 1,000,000 tons, and the Government was being warmly complimented on its vigorous master-stroke. But it had bitten off more than it could chew. There proved to be much larger stocks of sugar in the United Kingdom than it had counted upon, and soon it was being undersold all round by private competitors.

The sequel is graphically told in the following extract from the *Glasgow Herald :*

"The world's visible supplies and the invisible accumulations from the over-productions of former years were too heavy

to be easily held in check, so that, with prices double those of quite recent times, offers to sell began to pour in from all sorts of places at rates so much under those quoted for Government sugars as to place the latter in a position which rendered them practically unsaleable. In a word, an operation considered necessary in order to prevent a sugar famine was overborne by conditions dead against any such conclusion, so that, what with Government prices maintained at a high level, offers from producing countries of ready, near, and forward delivery sugars much under Government rates, and finally by that most mysterious remedy against famine, the prohibition of further imports, an artificial situation was established which reduced everything connected with the trade to what may be described as a state of suspended animation."

Without being too critical, there are several points of view from which this sugar venture may be regarded—first, as an example of the trading problems which spring up at the outbreak of a war and have to be instantly dealt with; second, as an illustration of the enormous magnitude of the movements in our staple commodities; third, as a proof of the extreme danger of amateurs—especially political amateurs—jumping into a speculative market and trying to beat professionals at their own game. In this case a brilliant beginning only led to a disastrous ending. How many millions sterling were ultimately lost on the 900,000 tons of cane sugar which the special Commission bought in such hot haste in order to check a threatened sugar corner is a secret of war likely to be preserved as long as possible in the official archives. All the same, there are many points of public interest connected with it which the taxpayers are entitled to have fully explained and discussed.

While the Government held this enormous stake in the sugar market it had absolute power over the imports and exports of the commodity itself. It made frequent use of that power—doubtless perfectly honest use, but the position was rendered none the less anomalous thereby. The Orders in Council and official proclamations affecting sugar exhibit bewildering variety. Between August 5 and October 26—a period of less than three months—they

underwent six or seven important changes, not to mention several small ones. The first proclamation on August 5 prohibited the exportation of food-stuffs generally, whether for men or horses. Five days later (August 10) specific lists of prohibited food-stuffs were issued which included sugar, refined, unrefined, and invert, candy, molasses, and glucose. On August 28 exceptions were made in favour of the British Dominions, Crown Colonies, India, Egypt, Cyprus, and the Channel Islands. On September 11 that order was revoked, and the exportation of sugar goods was absolutely forbidden without reference to destination.

So far there seems to have been no interference with the importation of sugar. It remained quite free, notwithstanding the large stake the Government had in the market and the increasing weakness of prices. But it was now discovered that certain neutrals, and possibly also the Germans, were practising a clever trick upon us. They induced holders of large stocks of sugar in neutral countries to ship them to the United Kingdom and replace them with German or Austrian beet sugar. In order to stop this game, a proclamation was issued on September 30, forbidding the importation through or from any port in Europe of raw or refined sugar produced by an enemy or in an enemy country. On October 19 the veto on exportation was removed from certain classes of sugar and molasses. On October 26 the partial prohibitions of importation proclaimed on September 30 were made general.

From that date neither exportation nor importation was permitted, and sugar became a closed market for all but domestic holders, of whom the Government was by far the largest. A Gilbertian Sugar Ring had emerged from a long series of prohibitions, revocations, and re-prohibitions. The domestic consumer had to pay about 1*d*. per pound extra for the sweetening of his tea and coffee, but he did not grumble. Other people did, however. The "sugar users," as they call themselves—that is, manufacturers of jams, confectionery, &c.—had a very serious grievance against the shutting out of neutral as

well as enemy sugar. Sugar goods being still freely admitted, their market was consequently given over neck and crop to their foreign competitors.

If ever a man went out, as the Americans say, to meet trouble, it was the author of the brilliant idea that a State monopoly of sugar would be a grand war measure. He certainly did meet it, and, what was a great deal worse, he dragged many innocent people into it along with him. The whole sugar trade, which is notoriously one of the most sensitive and easily disturbed, had its teeth set on edge by this nationalising miscarriage. It found the Government a most tantalising and provoking partner. From day to day prohibitions, revocations, alterations were showered down upon it. Between Orders in Council, Royal Proclamations, and Home Office licences, it never knew where it stood, still less where the Government stood. The first concrete fact to come to light was that at the end of 1914 some solid millions of the money provided for carrying on the war had been sunk in this official sugar deal.

It might have been thought that after such a costly experience Ministers would be very chary of launching again into what the Americans call "big business." Probably they would have been only too pleased to keep out of it if they could, but emergencies arose from time to time in presence of which their *quids* and *quodlibets* were powerless. These were not legal, but business problems, and had to be treated as such. Some of them had the further drawback of raising fiscal issues as to which Ministers had deliberately tied their hands years before. On such questions as the supply of home-made aniline dyes, free traders had put themselves out of court, and landed in the dilemma of having either to leave them alone or deal with them on certain fiscal lines which, in their political youth, they had abjured.

It was obvious to the commercial world, Chamberlainites and Cobdenites alike, that if we wished to seize the opportunity which the war afforded us of rendering ourselves independent of German dyes, a native industry

must be established on absolutely secure foundations. Not only during the war, but after it, and for years to come, if necessary, it must be safeguarded against unfair and unsound competition, whether home or foreign. Its special danger was German dumping, as there could be no doubt that after the war the Germans would move heaven and earth to preserve their aniline monopoly. What was needed was reasonable security for the capital to be invested—in plain terms, adequate protection for the enterprise during its infancy.

Mr. Asquith, in his eloquent speech on the defence of the realm, declared that this was no time for "juridical niceties." But most people think that neither is it a time for "fiscal niceties." They seem, however, to be still too much for the Prime Minister. He will not sacrifice a jot or tittle of his economic creed. The native producer may have subsidies and bonuses by the half-million, but no customs duty—that is, and always will be, anathema in Mr. Asquith's political household. Briefly stated, the British aniline dyes prospectus is a scheme for protecting a new industry at the expense of the British Treasury instead of at the expense of its foreign competitors. No sound company capable of meeting the special emergency to be dealt with could be framed on such lines, but the one produced by the Board of Trade did not require to be quite so clumsy as it appears to have been. Neither did it require to be presented to the public in such an uninviting and even repellent form.

Publicity, which is supposed to be the life-blood of company promotion, was on this occasion carefully eschewed. Only one advertisement appeared in any London paper—the *Times*—and in the provinces it was confined to half a dozen widely-scattered organs. If the Board of Trade expected the *Times* to show becoming gratitude for the special favour bestowed upon it, it must have been grievously disappointed. The City editor, having taken two days to think over the prospectus, passed a decidedly unfavourable judgment upon it. After a few allusions to the peculiar origin and character of the scheme, he went on to say :

"If the situation were different, and this issue were being made on the ordinary lines of a new commercial company, we should have to criticise the prospectus rather severely, for on the face of it the document is quite unsatisfactory, and has nearly all the faults that a prospectus can have. The necessary facts are not stated, and what is stated is misleading."

Then he summarised the salient points of the prospectus in a far from flattering fashion. Any lay investor outside of the dyeing trade who may have put some money in the scheme may do well to keep the following paragraph beside him for future reference :

"We need only refer to some of the more obvious points. The prospectus states that the authorised share capital is £2,000,000 in £1 shares, and that the Government has agreed to advance £1,500,000 on Four per Cent. Mortgage Debentures. But it appears that, in fact, the Government is only to advance £1 for every £1 of share capital subscribed up to £1,000,000, and then another £1 (up to a maximum of £500,000) for every £4 of further share capital. On a share capital of £2,000,000, therefore, the Government loan will not be £1,500,000 at all, but £1,250,000. We do not overlook the words 'up to a maximum sum of £500,000,' which are so ingeniously inserted. The prospectus blandly says that 'there may emerge in time a company whose resources might be £3,000,000 in subscribed share capital,' but if so the 'authorised share capital' must be enlarged, and at present it is obviously misleading to put the Government loan at £1,500,000. As a fact, only £250,000 is to be called up at once on the million of £1 shares offered for subscription, so that the Government loan, to begin with, will only be the same amount. The first act of the directors of the new company is to be to 'consider' the question of purchasing the business of Read, Holliday, & Sons (though the prospectus does not even say what this business is, or what its profits or prospects are) ; and if they exercise the option for purchase given to Sir Hubert Llewellyn Smith, K.C.B., they do not appear to have much working capital left out of the £500,000 with which they start. They are apparently to provide £200,000 for extensions in the works, as well as something over £248,265 for purchase-money, and £20,000 to two of the directors, who are to give salaried services in the new management. The only point which is really at all clear in

the whole prospectus is that a very good bargain was made by Read, Holliday, & Sons with the Secretary of the Board of Trade. It gives no proper idea at all as to how the new company proposes to succeed, apart from the State necessity that it should. We hope, for national reasons, that the money will be provided, but it is regrettable that the issue should have been made by a prospectus which sets so bad an example to company promoters."

In one way or another this ill-starred project had as bad a time as a stray dog on a racecourse. Everybody took a passing kick at it, and it did not find a single unofficial friend or defender. In the House of Commons Ministerial and Opposition critics vied with each other in condemning it. But when Mr. Handel Booth entered the lists against it, the Chancellor of the Exchequer might well have exclaimed, "Et tu, Brute!" Mr. Booth was as scornful of this Board of Trade bantling as he had been of the Meyer contract of the Board of Works. He opened his attack on it by asking leave

"to direct the House's attention to a mysterious document purporting to call itself a prospectus of the new aniline dye scheme. The prospectus had not been distributed to members; it was not available in the vote office, and if anyone wanted information about contracts which vitally affected a loan of a million of the taxpayers' money, he had to go into the City and see a firm of solicitors. He declined to go to any firm of solicitors to ascertain what were the Government's intentions on a question of such magnitude. . . .

". . . The Board of Trade reviewed the balance-sheets of companies, and it was regrettable that this issue of its own should have been made by a prospectus which set such a bad example to company promoters. There were three great omissions in the prospectus. It did not disclose the name of the promoter; it did not give the balance-sheet of the firm to be taken over, and it omitted all mention of a manager. It was not a prospectus, but a commercial periscope indicating what might emerge in time. The condition was laid down that the company should remain British, but there was no provision which would prevent the Germans buying up the shares after the war. There was a provision that two Government direc-

tors should have a power of veto. The fitful intervention of two men would never make a business prosperous."

Having gone carefully through the crudities of the prospectus, he wound up with a sweeping prediction of failure :

"The Government were determined on the scheme, though they had not the support of the House. It was neither a Free Trade nor a Protectionist scheme ; it was neither a Government company nor a private company. It was a mix-up of everything such as never succeeded in furnishing dividends yet."

The aniline scheme would certainly never have been authorised as a private promotion. But logic and consistency have been banished to Saturn in all commercial matters. The Government coolly assumes the right to violate any of its own emergency regulations. In one breath it sternly forbids trading with the enemy, and in the next it offers licences to traders to import aniline dyes from Germany. The importers of these dyes sell them directly or indirectly to the Government, so that in effect it is the Government that trades with the Germans.

So much for the business side of the aniline muddle. There is also a technical side which appears to be equally open to criticism. Among other scientists, Professor Armstrong takes strong objection to it, and doubts very much if it will operate as it is expected to do. In a letter to the *Times* of March 12, 1915, he declared that—

"The Board of Trade has undertaken a task for which it is not competent. By its own confession, it has not taken scientific advice. The promoters' committee, we are told, has had at its elbows two, at least, of the 'greatest chemists in Europe' ; but one of these, Professor Green, has not been consulted during the past three months, it is said ; the other I know went to America several weeks ago. In reality, the power is behind the throne—the Board of Trade is not directly to blame ; the scheme is practically that of the noble and learned Lord who has elected to constitute himself sole arbiter of our chemical activities in connection with the war, and also

protector of the dye-stuff industry, to the entire exclusion of the members of the scientific profession directly concerned who are technically qualified to deal with it and the collateral industries."

"The noble and learned Lord" referred to by Professor Armstrong is, of course, Lord Moulton, one of the four eminent lawyers who, if they go on as they are doing, will soon be running the whole business of the country. Lord Reading has constituted himself the *deus ex machina* of the Stock Exchange. Mr. M'Kenna carries, Atlas-like, the sugar market on his shoulders. Lord Moulton is scientific supervisor of the Board of Trade. Mr. Lloyd George acts as special providence to the banks, the traders, the strikers, and disorganised industries generally.

PART IV

THE TREASURY REGIME

CHAPTER XVI

THE TREASURY AND THE BANKS

It is to be hoped that one day, and not too distant a day, an authoritative account will be published of the long series of confidential negotiations which took place between the Treasury and the banks during the first week of the war crisis. The British public, and especially the commercial public, are entitled to this on various grounds :

First, to enable them to understand the complex nature of the crisis.

Second, to allow them to judge for themselves the various schemes of relief which were suggested and discussed.

Third, to make them fully acquainted with the personal views of our banking and financial authorities on the grave issues that had to be faced.

Fourth, to make it clear to them what was the net actual outcome of these many conferences.

Fifth, to show them how they stand now in relation to the great banking and financial movements on which the general trade of the country so largely depends.

It would be the height of folly to assume that after our currency system, our banking system, and our financial system have all gone through the melting-pot they can go on again just as before. It would be equally absurd to suppose that the fiscal and industrial policies which have been shattered by the war are, when it is over, to gather themselves together again and proceed as if nothing particular had happened.

There has been a considerable breakage of idols in the City. Even Lombard Street has not escaped unscathed. After coming as it did, to a dead stand, and having to be

extricated by the Treasury, it will have to moderate its boasts about "the only free and open money market in the world." Eminent bankers will have to read over again in a chastened spirit the panegyrics which in byegone days they pronounced at the Bankers' Institute on their mesmeric "bits of paper," which, like Mr. Atkins, can go anywhere and do anything. The Treasury conferences revealed to us that even these bits of paper have their limitations. The sequel to them proved also that a plethora of floating credits in the hands of bankers and bill brokers is not altogether the same as national wealth.

These and many other unexpected lessons have had to be learned during the financing of the war. The experts themselves experienced some notable surprises. The action of the various markets, far from being uniform, was full of anomalies. They differed greatly in the power of resistance to depressing conditions which they exhibited. Strange to say, those which depended chiefly on credit rallied much more quickly than others which had substantial value behind them. It puzzled Throgmorton Street greatly that the rehabilitation of stocks should be so much more difficult than that of acceptances and bills of exchange. If we were to judge solely by Treasury bulletins and the weekly returns of the Bank of England, the money market underwent a lightning change from semi-panic to superabundance. But the stock market struggled in vain to follow its lead.

This is somewhat of a paradox which has yet to be explained. At the height of the crisis why should so many people have been eager to stake tens of millions on "scraps of paper" in Lombard Street, while so few paid any attention to the bargains that were to be picked up in dividend-paying securities? As permanent investments, good securities yielding 5 or 6 per cent. and even more were surely to be preferred to bills of exchange which could earn only 1½ or 2 per cent. Nevertheless, all the banks stuffed themselves with bills and treated them as money! Their balances made a brave show in the Bank of England, and they won the admiring congratulations of the financial press.

From the *Financial Times* of September 18 the follow ing example has been culled :

"The Bank of England goes on improving its position in a way that is most inspiriting. Yesterday's Return showed that the Coin and Bullion stock had risen to the very high level of £48,720,000, which is $6\frac{3}{4}$ millions above the total at this time a year ago, while the Reserve has risen to $32\frac{1}{2}$ millions. Since 5th August there has been received by the Bank from abroad or placed to its account with banks in the Colonies gold to the huge total of £23,088,000. Despite the continued discounting of pre-moratorium bills, the repayments on account of maturing bills is on a larger scale, so much so that in the past fortnight over £8,000,000 "Other Securities" have been redeemed. By the way, the Bank, in accordance with expectations, is maintaining its dividend at the level of 10 per cent., less tax, to which it was raised six months ago."

On the same day as the above appeared a bulletin in a similar strain was issued by the Treasury. It is also worth quoting in full :

"The £15,000,000 Treasury Bills tendered for on Wednesday raises the amount borrowed upon this security for war expenditure to £45,000,000. This large amount has been obtained within the short period of one month, not only without denuding the market, but apparently without making any appreciable impression upon the available resources of the country, since the tenders for the most recent issue were larger in total amount and the terms offered were more favourable to the Government than those of the previous issues. The last issue is £7,500,000 in six months' bills and £7,500,000 in twelve months' bills. The six months' bills were allotted at an average rate of discount of £2, 18*s.* 7*d.* per cent. per annum, as compared with £3, 13*s.* 1*d.* on 19th August and £3, 15*s.* 6*d.* on 26th August. The twelve months' bills were allotted at £3, 8*s.* 4*d.* per cent., a remarkably low rate for so long a period at a time like the present. The total amounts offered were £42,000.000 on 19th August, £40,000,000 on 26th August, and £47,000,000 on 16th September. The keenness of the competition for the bills is shown by the fact that the separate allotments of the 16th September issue were no less

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than 281. Notwithstanding these large Government borrowings, money continues to be readily obtainable in the London market at $3\frac{1}{2}$ to $3\frac{3}{4}$ per cent."

These paradoxical statements refer to a special and peculiar market which is not always a true index to the state of trade and finance generally. They speak of it as the "money market," but only a small percentage of the materials it works with is money proper. The rest is credit—mere promises to pay at some future time. There may be tangible security for most of the promises, but often they rest on pure, unsupported credit. They only represent real wealth in so far as they have substantial backing. There is no limit, however, to the rate at which they can be created and put in circulation. Neither is there any reliable method of ascertaining the actual amount in circulation at a given time.

The Treasury statements and the Bank of England returns issued during the crisis have therefore to be read with care and discrimination. The changes they exhibit are monetary only in a narrow sense—that of the bill brokers. They represent creations and interchanges of credit paper in which assets and liabilities work out about even. In other words, they rise and fall together, leaving the net balance pretty near where it started from. To use an American phrase, the bill brokers "swop debits and credits" with the banks, and occasionally with the Treasury also. When the swopping process is active, the bill market is brisk and money is supposed to be dear. When it is dull, the bill market languishes and money is said to be cheap. But much of the difference between the two conditions is a matter of book-keeping.

If it had been real money or money's-worth that the bill market was operating with in August and September last, how could it have changed so quickly from a state of bankruptcy to a state of overflowing prosperity? At the beginning of August it could neither meet its bills falling due nor get them discounted. The Chancellor of he Exchequer devised a patent method of discounting or its benefit. It rushed to the Bank of England and

exchanged its bills—not for cash, but for bank credits. It escaped from a tight corner only to be swamped with unusable credit. Then the Treasury appeared a second time as a *deus ex machina*. It borrowed 90 millions sterling of the proceeds of the bills which it had previously guaranteed to the Bank of England. The outcome of the "general post" movement was that Lombard Street held 90 millions sterling of Treasury bills in place of a similar amount of bills of exchange. But the bills of exchange had still to be met as they matured.

Very little new money may have been put into these Treasury bills. To a large extent they may have simply displaced a corresponding amount of bills of exchange. Perhaps all the parties will find that it was a change for the better, but final judgment cannot be passed upon it until it has run its full course. It was undoubtedly a great gain for the bill brokers to be released from their tight corner, and the Treasury was entitled to congratulate itself on the good beginning it made with the financing of the war. But neither result definitely settled anything. They were only a shuffling of the cards for the real game that had still to come.

But so long as banking credits and debits are not confused with real money and money's-worth, it may be cordially acknowledged that Lombard Street achieved a brilliant transformation during the first month of the war. From a state of utter helplessness, out of which it could not have lifted itself for months, if at all, it was, by the intervention of the Treasury and the Bank of England, raised to a position of exceptional financial strength. The month of August opened in monetary gloom and semi-panic. Credit had suddenly lost all its magical power, and its simplest operations had become almost impossible. A fortnight later the banks were once more making short loans at the old 2 per cent. rates and competing for Treasury bills to yield only $3\frac{1}{2}$ per cent.!

But the apparent miracle was no miracle after all. Its true character may be best illustrated by a pastoral analogy. Imagine Abraham with his flocks and herds extending many miles around his camp. He is suddenly

threatened with a raid by the Amalekites or some other Huns of the period. In order to save his cattle and his sheep, he gathers them in as close as possible to his camp. Then a small ring round the camp becomes inconveniently crowded, while the outlying country is abandoned to the Amalekites. That is exactly what has happened in Lombard Street. At the first alarm of war, capital which had been finding profitable employment all over the kingdom, the Colonies, and elsewhere, was hurriedly called in. It drifted into the banks as deposits, and the banks lent it out to Lombard Street. There, instead of earning 6, 7, or 8 per cent., as it had been doing when industrially or commercially employed, it had to be content with a beggarly 1½ or 2 per cent. But our banking pundits, instead of regretting the reduction in the earning power of all these millions of half-employed capital, asked us to admire the amazing riches of Lombard Street and its splendid mobilisation of financial resources! Abraham might as well have boasted of the magnificent mobilisation of half-starved cattle round his besieged camp.

From Bagehot's *Lombard Street* onward, panegyrics of all sorts have been showered on the London bill market. It has been described as the hub of the financial world, the pivot on which commerce and industry revolve. These panegyrics have, however, one drawback. They are to a large extent professional, most of them having been written by bankers for bankers. The Bankers' Institute has a long series of them on its records. As they proceed they become more and more fervid and enthusiastic. The most glowing of them was delivered by Sir Felix Schuster during Mr. Chamberlain's Tariff Reform campaign in 1903. All who took the imperial side in that famous fight will remember that the City bankers were among their most resolute and effective opponents. Their objections, combined with the hostility of the trade unionists and the popular alarm about dearer food, defeated Mr. Chamberlain for the time being. But we are coming round again to-day to the old issue in a new and much larger form. If Mr. Chamberlain had been spared to witness the Armageddon of 1914, he would

have rejoiced to see his successful opponents of 1903 developing a much greater imperialism than even he had ever dreamt of. On the other hand, he would have had to share their sorrow over the collapse of the international money market, for which they were so unnecessarily alarmed in 1903.

Sir Felix Schuster's address on "Foreign Trade and the Money Market" was read before the Institute of Bankers on December 16, 1903. Its main arguments were—(1) that foreign trade and foreign exchange are complementary forces which act and react on each other; (2) that restrictions on our imports and exports must have a corresponding effect on our monetary operations abroad, *ergo*, the tariff reform advocated by Mr. Chamberlain might cause dangerous disturbance in Lombard Street. The general public being still somewhat at sea as to the special functions of Lombard Street, Sir Felix Schuster prefaced his case with an elaborate description of them. Examples of their cosmopolitan beneficence were drawn by him from all parts of the world and from every branch of commerce:

"As I have already said, the fact of our being the recognised financial centre is beyond doubt. That this is so is a matter of the very greatest moment, for it will be admitted that the prosperity of the whole of the United Kingdom must, in a great measure, depend on our being able to maintain that position. A bill of exchange on London is the recognised medium of settling international transactions, which is made use of in all parts of the world. I really think you must have lived, or at least travelled, in foreign countries, to realise to what extent this bill on London enters into daily commercial life in all foreign countries. Not only in the banks abroad, but in the offices of most leading merchants, the dealing in such bills is of constant occurrence; and the names of London bankers and merchants are as well known in the important commercial towns all over the world as amongst ourselves. It is quite true that a certain number of bills are drawn on Germany, or France, or Belgium for goods shipped there from transatlantic countries, but the number of such bills is comparatively small, and they are only used in connection with

trade between those respective countries, and not as international mediums of exchange. As regards shipments of goods to the United Kingdom, the shipper almost invariably obtains payment for those goods by selling his bill on London to the local bank. But not only that; in most cases he would prefer, when he sends goods to any part of the continent of Europe, or to the United States, to draw a bill on London against them, leaving the purchaser to settle with the London banker. In using the term banker, I include, of course, the large number of so-called merchant bankers who make a speciality of this kind of business. Thus the China merchant who sells tea to Russia or Germany, or silks to the United States, will probably obtain payment through the medium of the London money market, and equally the German merchant who sends his goods out to China. It is needless to multiply instances; they may be found amongst almost every article of trade. The coffee that is shipped from Brazil into France or Italy, the cotton from New Orleans to Poland, sulphur from Sicily to the United States, and agricultural machinery from the United States to the River Plate, all these trades find their clearing-house in Lombard Street. This applies not only to goods, but to securities also. If a Dutch capitalist invests his money in an American railway, he will probably complete the purchase by a payment in London; and when the United States paid Spain for Cuba, it was through London that the transaction was settled. The same, of course, applies to the Chinese payment to Japan at the close of the war."

The most impressive feature of the world-wide operations thus graphically depicted by Sir Felix Schuster is the interweaving and overlapping that goes on amongst them. This is, under normal conditions, a great advantage in so far as it saves time and cost of transport. But when the huge complex machine is thrown out of gear, much more when it comes to a standstill, its ramifications become a burden to it. Not only have the broken wheels to cease running, but all their connections have to stop also. The whole machine, in fact, becomes shaken and tottery. Even its golden talisman fails, and when that goes Lombard Street reverts to a paper basis. What that means may be inferred from Sir Felix Schuster's panegyric on the world's "only free market for gold":

"The fact of our being the only free market for gold, and also the credit and high standing of our bankers and merchants, have contributed largely to our attaining and keeping our position as the financial centre of the world. But this cannot be the only reason, nor even the main reason, for this position. The banker who buys a bill on London, say, in Valparaiso, does not buy it because he wants the gold; but he knows that, if he has no other use for the bill, he can obtain gold for it, though probably at a small loss to himself; he buys it because he knows he always finds a ready market for it—he can always sell it to a merchant, in his own place or in some other country, who requires it, in order to pay for goods or services rendered to him here, or to some Government that has to remit it for payment of interest. There is an absolutely free market, because there is always a supply, and there is always a demand, and that really in every part of the world For as the seller of foreign goods to Great Britain obtains payment by means of this bill on London, so the purchaser of British goods abroad settles his indebtedness by the same means."

One has to read and reread glowing tributes like these to the universal power of Lombard Street in order to appreciate the feelings of the panegyrists when their wonderful machine breaks down under them. It may not immediately occur to them that they have overstrained it, but that is pretty sure to be the cause. Sir Felix Schuster's airy assurance that in London "there is always a supply and always a demand" for gold has been often repeated since 1903, but it has almost as often been contradicted by facts. On July 31, 1914, it became a mockery, and remained so for weeks thereafter. It was even worse than a mockery, for it involved a mischievous fallacy. To say that there is always a supply of gold in London implies that there is always a means of creating credit. From this point it is a short step to the conclusion that credit may be created and piled up indefinitely. The international money market was diligently acting on this theory when Sir Felix Schuster officially proclaimed it before the Institute of Bankers. Encouraged by such high authority, it went ahead, never dreaming that a day might come when the gold talisman would not work and paper would be your only wear—Treasury paper.

All through the first decade of the present century the international money market had been heading straight for a crisis. Between bloated armaments, war budgets, super-taxation, State loans, and universal kite-flying, it was inflated to bursting-point. When the crash came, neither Lombard Street nor the Stock Exchange had the slightest idea how it really stood. The oldest and most experienced bill brokers could not guess to fifty millions the amount of the bills of exchange then held by the banks or the discount companies and the brokers. When the Chancellor of the Exchequer bravely undertook to guarantee every "approved" bill that had been accepted before August 4, it was mere conjecture what the extent of the liability he was incurring might prove to be. The number of bills rushed into the Bank of England for discount certainly far exceeded the largest estimate made beforehand.

The members of the Stock Exchange were equally at sea about the volume of the liabilities they had to meet. Credit has no concrete standards of measure like iron, or steel, or cotton. Neither does it admit, as they do, of statistical checks. Dealers in it can never do more than guess at the amount in existence on a given day. They can see when a particular firm is feeding the market too freely, but variations in the aggregate volume of bills current cannot be traced except vaguely. It may surprise the reader that this peculiarity of Lombard Street should have altogether escaped attention in the Treasury conferences. No question was ever raised as to whether it was a healthy condition for such a world-wide market to be in. Not a word was said about the very elastic character of these "scraps of paper," and the danger of their being over-rated in future estimates of our national resources. The Treasury conferences ended with loud exchanges of compliments between Downing Street and Lombard Street; but let us hope that Sir Felix Schuster's grand "international money market" has now a more modest idea of its functions than used to be displayed at the Bankers' Institute.

CHAPTER XVII

THE TREASURY AND THE STOCK EXCHANGE

THE legend that Mr. Lloyd George saved the City at the outbreak of the war, restored at a stroke his financial *éclat* and threw open to him a boundless field for his mesmeric arts. By using the credit of the Imperial Government to guarantee unknown millions sterling of pre-moratorium bills, he established an irresistible claim on the gratitude of the banks and bill brokers. His scheme for the Government insurance of war risks at sea gave him a similar handle over the shipping interests. The arrangement for advances to traders against uncollectible debts abroad won him friends in all the manufacturing districts. These valuable prizes fell to him easily—threw themselves at him, one might say. Only one of his heroic benefactions cost him any trouble at all. The Stock Exchange alone presumed to look his gift horse in the mouth and to demur to the terms on which it was offered.

These terms, as they gradually revealed themselves, were found to be decidedly drastic. What they may grow into when they are fully developed is an anxious thought for the unfortunate members of the Stock Exchange. Their author—or authors, as Lord Reading is said to share the responsibility of them with the Chancellor of the Exchequer—conjure with an argument which admits of no reply. Every fresh restriction is prefaced with the announcement that it is regarded by the Treasury as "being for the present, at any rate, absolutely necessary in the national interests." Not a shred of evidence is furnished as to the imperative character of the necessity. No higher authority is given for it than the Treasury itself, which apparently consists of Mr. Lloyd George and his financial adviser, Lord Reading. Such unpre-

cedented and incalculable action would have been all the better for the support of some of the experienced and responsible financiers in the City. It ought at least to have been properly discussed in Parliament and thoroughly explained to the public before it was put in operation.

For a public department, however powerful, to attempt to muzzle the financial and commercial institutions of the country is a pretty strong step not to be easily justified. But when it goes farther, and forbids any new financial business to be undertaken without its express permission, we begin to rub our eyes and to ask ourselves, "Can this be the country in which the gospel of *laissez faire* flourished only a few years ago, and Mr. Lloyd George was one of its prophets?" Has it come to this, that the financial safety of the realm is entirely in the keeping of the Chancellor of the Exchequer, and that whatever he considers necessary to protect it must be done without murmur or question? There is just a bare possibility that the Minister who arrogates to himself this autocratic power may not be infallible.

As regards the Stock Exchange, he is generally believed by those who are doing their best to obey his behests to have overshot his mark, and done more harm at home than in Germany. Strange to say, one of the clearest warnings as to this danger came from a journalistic friend and admirer. The *Nation* of January 9, in an article on the re-opening of the Stock Exchange, challenged the restrictive policy of the Treasury, and expressed grave doubts as to its producing its intended effect:

"The Treasury," it said, "has practically taken over Stock Exchange affairs, and has constructed a network of restrictions in order to prevent any British or other securities from being sold on German account in Throgmorton Street. This is the purpose of all the anti-trading with the enemy laws and regulations and proclamations issued since the war began. They are not, of course, made to annoy foreign customers and clients of British merchants and manufacturers, but in order to shorten the war by curtailing the resources of the German Government. The only principle worth considering in this

connection is whether the net result of your interference will be worse for British than for German trade, for obviously (as bargains are for the benefit of both parties) embargoes and prohibitions must be disadvantageous all round. Anyhow, it is now admitted by practically everybody that some of the energy put into trade prohibitions can hardly obtain its end."

This is a significant article, not only for its Radical origin, but also for the clearness with which it states the essential issue involved in the prohibition of enemy trading. It opportunely reminds the Treasury of an element in the case which seems to be overlooked in that quarter, namely, that weakening the enemy may be bought at too high a price if you weaken yourself still more in the process. Its authority holds strongly that such a mistake has been committed by the Treasury in its regulations for muzzling the Stock Exchange :

"Now it seems fairly obvious," he says, "that the re-establishment of a free market for the sale of securities would have been of benefit to the people of this country. The great mass of securities on the London Stock Exchange list are owned by inhabitants of the United Kingdom. In a very few which are quite well known, Germans have invested or speculated. If there were serious danger of these being sold, special precautions could easily be taken and a particular set of restrictions imposed. But to shackle the whole Stock Exchange and stop the free sale of securities all over the United Kingdom for fear that the Germans might 'bang' the market temporarily (to their own heavy loss) in half a dozen specialities seems rather a Chinese proceeding. And yet the Treasury, we are officially assured, has had this end in view."

That is in a nutshell the Stock Exchange objection to the muzzling regulations. They are condemned as a case of burning down your house to roast a pig. The above views have been repeatedly urged in the financial press by the writer among others, but so far with little effect. And the cause is not far to seek. It crops up in every casual discussion of financial questions that takes place in the House of Commons. A considerable

section of Government supporters, headed by sapient moralists like Mr. Handel Booth, regard the Stock Exchange as a sort of Aunt Sally to hit at every opportunity and with any sort of weapon. It has got on their nerves, and they consider bear raids on any of their favourite stocks as reprehensible as Zeppelin raids on the east coast. When the Treasury was negotiating with the Stock Exchange Committee for the reopening of the House, these Puritans had actually drafted a Bill which would have required all bargains in stocks and shares to pass through the hands of the Public Trustee. Their hostility in the House of Commons was more than once made an excuse for refusing reasonable modifications of the proposed restrictions. And some of their speeches sufficiently justified that view.

In Committee on the Government War Obligations Bill Mr. Handel Booth delivered himself of a characteristic attack on the Stock Exchange which betrayed the sinister influence that was at work behind the Treasury. He began with the very credible declaration that "if the Bill had been brought forward by the Government under normal conditions, it would have met with tremendous opposition." Then he proceeded to wholly misrepresent the arrangement which had been made for the continuation of Stock Exchange loans. The Government, he said, had entered into an obligation to assist private individuals, mostly members of the Stock Exchange, to practically an unlimited amount. What the Government actually did was to give a 60 per cent. guarantee on the loans of certain non-clearing banks and outside money-lenders to members of the Stock Exchange.

The favour in this case was to the money-lenders rather than to the borrowers. All that the borrowers got was an extension of time for their pledged securities to recover from the effects of the war, and thus enable them to clear off their loans. This was a small favour indeed compared with what the bill market received, or even the traders whose funds were locked up in enemy countries. The aggregate amount of the loans was also comparatively insignificant. At least three-fourths of

the loans due by the Stock Exchange when it closed at the end of July were held from the clearing banks, which continued them without any guarantee from the Treasury. Only the other fourth—that is, the non-clearing bank loans, were guaranteed to the extent of 60 per cent., and their total amount is said to have been well under 20 millions sterling—a trifle beside the 120 millions sterling of guaranteed discounting which the Bank of England did for Lombard Street.

Already the above outside loans have been reduced by about 75 per cent.. and to that extent the liability of the Treasury has been diminished. If the Stock Exchange should receive no other knock-out blow from the politicians and War Lords, it will be able to meet all its obligations long before their term of grace expires. So much for Mr. Handel Booth's "Government obligation to assist private individuals, mostly members of the Stock Exchange, to a practically unlimited amount." His argument for treating the Stock Exchange as a reckless insolvent had no basis in fact even when he put it forward, and it has still less to-day. His special bogey, the speculative bear, is equally a creature of his imagination, as the muzzling regulations have proved. "He hoped steps would be taken to prevent alien enemies through the Stock Exchange depreciating Government securities so long as the war lasted, and that it would be made compulsory that no sale of Government securities should take place unless the vendors were in actual possession of the securities at the time of the sale."

Mr. Handel Booth and his friends had been pleased to see that the Treasury went far beyond the muzzling order they asked for. Instead of being limited, as they suggested, to Government securities, it was applied to every class of securities dealt in. This was quite a gratuitous and unnecessary aggravation of the restrictive policy. Radical as well as Opposition members of the House frankly admit and condemn it. It has encountered Radical objections in Parliament, and has been flatly repudiated by a leading organ of the Radical press. These are interesting facts to bear in mind in

studying Treasury edicts generally, and those directed against the Stock Exchange in particular.

From the day that the Stock Exchange closed, it came more and more under the control of the Treasury and its unofficial committee of banking advisers. Before it was allowed to reopen this control had become practically absolute. A Treasury Committee was set over the Stock Exchange Committee, which had simply to enforce the decrees of Downing Street. Previous to the reopening of the House, the following official notice was served on members:

"The Treasury has approved the reopening of the Stock Exchange as from January 4, 1915, subject to restrictions which have been imposed by the Treasury as a condition of reopening, and are regarded as being for the present, at any rate, absolutely necessary in the national interests. The object of them is:

"(*a*) To safeguard the London market against the forced realisation of securities, and against operations for the purpose of depressing prices.

"(*b*) To close the market absolutely to the enemy, both directly and indirectly.

"It is essential that all persons dealing in stocks and shares should conform not only to the letter, but also to the spirit, of the regulations. It should further be borne in mind that many of the transactions which the rules are designed to prevent are illegal under the Trading with the Enemy Acts and proclamations or under the common law. The restrictions are to form part of the rules and regulations and usages of the Stock Exchange, and where they differ from any existing rules the temporary regulations shall prevail.

Drastic as these regulations were, they had not been many days in operation before the Treasury arrived at the conclusion that it must go still farther. In its opinion, assuming control of all dealings in existing securities did not suffice; there must also be a check put on the creation of new securities. The first operation was ostensibly intended to weaken the enemy, and the second was to prevent our own resources being weakened, or rather the prospective borrowing power of the Government. Though

it is by no means clearly set out, that was the special object of the second proclamation (January 18), intimating that no further issues of new capital would be permitted without the previous consent of the Treasury. Its text was as follows:

"In connection with the reopening of the Stock Exchanges, the Treasury have had under consideration the general conditions under which new issues of capital in the United Kingdom can be permitted during the continuance of the war.

"It appears to the Treasury that in the present crisis all other considerations must be subordinated to the paramount necessity of husbanding the financial resources of the country with a view to the successful prosecution of the war. Accordingly they wish it to be understood that until further notice they feel it imperative in the national interest that fresh issues of capital shall be approved by the Treasury before they are made.

"Treasury approval will be governed by the following general conditions:

"1. Issues for undertakings carried on or to be carried on in the United Kingdom shall only be allowed where it is shown to the satisfaction of the Treasury that they are advisable in the national interest.

"2. Issues or participations in issues for undertakings carried on or to be carried on in the British Empire Over-Seas shall only be allowed where it is shown to the satisfaction of the Treasury that urgent necessity and special circumstances exist.

"3. Issues or participations in issues for undertakings carried on or to be carried on outside the British Empire shall not be allowed.

"4. The Treasury will not in ordinary cases insist upon the above restrictions where issues are required for the renewal of Treasury Bills or other short instruments held here and falling due of Foreign or Colonial Governments or municipal corporations or railways or other undertakings.

"All applications should be made in the first instance to the Treasury.

"The Treasury will not be prepared to approve under Paragraph 4 (3) of the Temporary Regulations for the Reopening of the Stock Exchange any dealings in new issues which have not been approved by the Treasury before they are made."

This second proclamation of January 18 took a much wider sweep than the first. The Treasury began by taking charge of the London Stock Exchange; next the provincial Stock Exchanges voluntarily recognised its authority; then it was asserted over all dealers in stocks, though no means existed of enforcing it. Hitherto the chief complaints had been of serious inconvenience and extra labour, but the veto imposed on new issues was a much larger and more vital question. It cut off for the time being a most lucrative class of financial business, which before the war had been glorified by free-trade bankers and financiers as one of the main sources of our national prosperity. It exposed our foreign and colonial enterprises to great risk of being jeopardised by inability to raise fresh capital as required. It jeopardised the large amount of export trade to borrowing countries, which invariably accompanies new loans. It tended to drive away to other countries financial business which has hitherto been considered specially valuable. It gave our foreign competitors an opportunity, which they were not slow to seize, of capturing that business. By embarrassing trading companies and reducing their earnings, it might cut off a large portion of the regular dividends on which thousands of small investors depend for a living. As an indirect but certain effect of reduced incomes of the taxpayers, the public revenue was sure to suffer.

Serious as these practical dangers were, one still greater overtopped them all. The damage done to the prestige of the various institutions thus commandeered by the Treasury was incalculable. One has only to refer to the panegyrics which the "eminent bankers" of ten years ago never tired of pronouncing on "the world's greatest money market," in order to appreciate the risk involved in a sudden reversal of the policy which built it up and maintained it through all the vicissitudes of several centuries. In a lesser degree the same plea may be entered for the Stock Exchange. What took centuries to create may take only months to destroy, or at least to cripple beyond repair. There is much more at stake here than jobbers' turns and brokers' commissions.

Naturally these Treasury edicts have encountered a great variety of criticism at home and abroad. Domestic critics, and City authorities in particular, spoke of them at first with becoming hesitation, but as their dangerous possibilities became manifest, condemnation grew more and more emphatic. Everybody admitted to the fullest extent the plea of national safety on which they were based. Some were hopeful that they might produce the intended effect, but the majority were doubtful. No one attempted to dispute that they were a complete reversal of the historical traditions of our money and stock markets. More than one critic pointed out that they were at variance with the war policy which had been applied to other markets. Ultimately a crucial question was put—Has sufficient proof been advanced on the two vital points of which we should be fully assured before committing ourselves to such hazardous ventures: first, are they absolutely necessary? second, can the end in view not be achieved by less drastic and revolutionary measures?

The joy with which the Treasury restrictions were hailed in New York and other financial centres abroad was in striking contrast to the doubts and fears which they have awakened in the City. Within twenty-four hours of the Treasury veto on new issues appearing a cable was received from the New York correspondent of the *Daily Telegraph* commencing:

"American banking interests expect to benefit considerably by the action of your Government in forbidding new capital issues outside the British Empire. They believe that foreign countries will now be persuaded to come to the United States for financial assistance, and that the time has at last arrived when New York should have a chance to replace London, for a time at least, as the financial centre. All publications here to-day discuss this phase of the situation, and are very optimistic about New York's prospects.

Practical proofs of the eagerness with which the Americans were waiting to take advantage of every opportunity offered them to cut us out were soon forthcoming—some

of them through the most unexceptional channels, from a Ministerial point of view. Doubtless the Treasury read with interest in the City article of the *Daily Chronicle* the following bit of news from New York :

"The New York correspondent of the *Daily Chronicle* writes : Bankers and business men are greatly gratified at their success in beating a British competitor in the recent Argentine loan of £3,000,000. As all the 6 per cent. notes to be issued are to be deposited here against purchases of American products, they have additional reason to be satisfied with their deal on that score. Already New York's exports have increased amazingly, and those of neighbouring ports to an almost equal extent. Mr. Treasurer M'Adoo, who recently returned from the West, is authority for the statement that all he saw and heard from the coast to Chicago convinced him an era of prosperity was at hand."

The only drawback to the hilarity of our American friends is a misgiving as to their ability to hold the new business when they get it. They are not sure that our superior methods may not enable us to take it from them again after the war. The above-mentioned cable continues :

"The view expressed that if America can secure this business now she will always be able to hold it is not generally shared, because it is known that most foreign countries, especially South America, have found it to be to their decided advantage to transact their financial business in London in preference to New York. With the London market shut off from them during the war, however, it is regarded as only natural that foreigners should come to a large and wealthy country like America for funds."

Anyhow, the Americans may be trusted to make a good try for our South American markets, and a still better one to keep whatever they can capture. This is certainly a very inopportune moment for adding to the possible causes of friction between us and the United States, and it is in South America that these are most rife. The Americans have set their hearts on drawing closer the hitherto loose bonds which unite them to their

sister Republics south of Panama. It was avowedly for the development of their trade with South America that they wished to purchase the German liners now interned at New York and other United States ports. The prospects of President Wilson's scheme for that purpose getting through the Senate were not at all rosy when the Treasury veto on new issues was launched. They perceptibly brightened under its influence, and other indications were quickly forthcoming that the broad field of South American finance was not to be long left unoccupied when we retired from it. Neither will the other rich fields we are cutting off be allowed to lie long fallow.

Though City men in general, and City editors in particular, have—for quite commendable reasons—been very chary of criticism on these Treasury edicts, certain objections to them have been so obvious that they could not escape notice. One well-known authority pointed out that no proper machinery had been provided for giving effect to the regulations. In order to do the work efficiently, something much more accessible and expeditious is needed than a Sub-Committee of the Treasury. The same authority predicted that the withdrawal of borrowing facilities from foreign and colonial enterprises, in which millions of British capital are locked up, would inevitably lead to an increase in defaults, which are already quite sufficiently numerous.

A poser was presented to the Treasury when it was asked to explain the inconsistency between its restrictive policy and the propaganda preached by other public departments for capturing enemy's trade :

> "While the Foreign Office and the Board of Trade on the one hand have been collecting information and making suggestions for the capture of Germany's trade by British manufacturers, the Treasury, on the other, imposes regulations which prevent the raising of capital to carry out such projects, and kills individual enterprise which has built up the finance and commerce of this country."

It is worth noting that the oldest and one of the most respected of City organs—the *Economist*—has persistently

condemned all these developments of Poo Bah dictation at the Treasury. Its criticism of the muzzling restrictions imposed on the Stock Exchange has been already quoted. On the veto of new issues of capital it spoke out still more strongly. Repeatedly and in the most explicit terms it pointed out the grave dangers which might result from closing the London money market against all borrowers except those approved by Treasury officials. The following forcible warning appeared in its issue of January 25, 1915:

"The new pronunciamento—which is issued, be it observed, without any special Parliamentary authority—deserves study and criticism. What will be the effect? Paragraph (1) says that British industries shall not raise new capital by public subscription unless the Treasury thinks it advisable in the national interest. This provision will only hamper businesses which cannot raise money privately. It means that the Treasury (that is, certain civil servants, whose names are unknown) is to decide whether a business is of national interest. But surely the old market test is better than this German plan, which substitutes bureaucratic favour and discretion for the free play of business instinct. Paragraph (2) indicates that only under very special circumstances will the Treasury allow colonial undertakings to ask for money here. It is the same thing, only more so, and it may cause needless annoyance in the Colonies."

So far we have written about these Treasury restrictions while they were still young and untried. After several months' experience of them we can now form at least a provisional judgment on their actual operation. Their effect in stimulating American competition has, as we anticipated, been very remarkable. It has gone far beyond our forecast. To-day (May, 1915) the Americans are in full enjoyment of the prosperity which Treasurer M'Adoo promised them last January, on his return from his Western tour. Their foreign trade is expanding at a furious rate, thanks partly to the war contracts which the Allies have been obliged to place with them, because they could not be executed fast enough at home. But there has been another and a more natural cause for it.

President Wilson and his Democratic censors have taken fright at the effects of their trust-bursting crusade and called a halt. Business was given a chance to recover, and it is reviving rapidly.

In March this revival reached Wall Street, and was reflected there in a series of remarkable developments. Dealings became more and more free, until they reached a point at which they could be thrown open to the public without any restrictions or limitations. The volume of transactions grew daily until the one million share level was again crossed. Prices, of course, rose as the demand for stocks increased, and by the middle of April most of them were back to the end of July quotations, which had been adopted as official minima. Wall Street had all the more reason to be proud of this notable achievement, as the credit of it was entirely its own. European markets had rendered little or no help. Berlin, Frankfort, and Amsterdam had been persistent sellers, as was to be expected in the circumstances. And London had wiped itself out. The Stock Exchange was muzzled, it could do no arbitraging, and it had to close daily at the same moment that Wall Street was officially opened.

For good or for evil, our stock market has been almost completely shut off from the great recovery which is taking place in Wall Street. Has it gained or lost in consequence? Among the dealers themselves there is only one opinion. It has lost heavily. Has the country gained or lost? Lost, undoubtedly. Have the financial resources of the nation been weakened or strengthened thereby? It is for the Treasury to answer that question, and it will have difficulty in doing so to its own satisfaction. It may find itself in the position of the faithless steward who hid his talent in a napkin. Millions on millions of capital, which, but for these Treasury restrictions, might have been earning good returns as well as rendering useful service to the country, have been piled up in the Bank of England. They are condemned to lie there idle until the Treasury needs them.

Meanwhile, Americans and other foreigners are making the most of the opportunities which British subjects are

forbidden to use lest there should not be enough money left to finish the war with. This fear is based on a series of errors and delusions. The latest revenue returns have agreeably surprised both the public and the Treasury by their unexpected elasticity. As yet the taxpayers do not seem to have been very hard hit, and before the heavy end of another year's taxes has to be shouldered the war may be over, or at least the end may be in sight.

But a worse delusion is that, had the stock market remained free, all the new capital it employed would necessarily have been locked up. If it had gone into good securities, earning fair returns, such securities could always be financed by the banks. Holders anxious to subscribe to fresh issues of war loans could have raised money upon them with a moderate margin. A sound security is almost as liquid as a bank deposit or a bill of exchange, provided the Treasury and the banks do not combine to boycott it. *Per contra*, it pays much better to hold, and any discouragement of such holdings operates as a diminution of the earning power of the national capital. Instead of conserving the national resources for war finance, it tends to deplete them, and the longer the boycott continues, the greater will be the depletion.

The ordinary operations of the Stock Exchange have also suffered great harm from the Treasury boycott. This has been particularly evident in the American market. If free intercourse with New York had been permitted, many sacrifices of stock at the end of July prices—that is, the worst prices on record—might have been avoided. As it is, the Americans got thousands of shares at knock-out prices, and have already marked them up 10, 15, or 20 points. Canadian Pacifics, which they bought at 155 and even lower, are now quoted 176. Had the Stock Exchange been less severely fettered, the revival might have come along much quicker, and London might have secured a larger share of it.

But the usual thing has happened—London has sold out at the bottom and is beginning to buy again at the top. This time, however, it is not entirely to blame. For nearly a year it has been denied the right to exercise

any judgment of its own. With the avowed objects of the Treasury it thoroughly agreed, and was always ready to comply with them loyally, but the method of effecting them has, it considers, proved a practical failure. It has not only failed, but has given the enemy an opening for clumsy ridicule, as witness the following choice extract from a Berlin paper :

"The *Berliner Tageblatt* is very scornful about the reopening of the Stock Exchange under stringent precautions. 'Is this,' it exclaims, 'really an open market, in which supply and demand meet ? What sort of a Bourse is this ?' The journal says that the Berlin authorities have no desire for such a Stock Exchange, and prefer to wait until business can be resumed in the ordinary way. Berlin 'has no desire to amuse itself with caricatures.'"

CHAPTER XVIII

THE TREASURY AND THE TRADERS

Though during the war crisis much more has been heard about the financial activities of the Treasury than about its commercial difficulties, it would be a great mistake to infer that the latter had been negligible. On the contrary, they have been the more varied and extensive of the two. It required a comparatively short time to clear the course for the banks and set them going again. To set the Stock Exchange on its feet again after it had been thrown out into the street was a more tedious task, but the delay was not entirely due to the Stock Exchange itself, and perhaps not entirely due to the Treasury. Occult influences may have been at work.

But the traders were in close contact with the Treasury all the time. They were either co-operating with it or in a state of friction with it. At scores of different points they ran up against it. It had not only to transact business of its own with them, but it had to supervise, and, in doing so, to assume a share of the responsibility for their ordinary trading. Neither the Admiralty, nor the War Office, nor the Board of Trade could negotiate an important contract without the approval of the Treasury. In many instances the Department would be only a nominal negotiator. The real principals would in minor cases be the Treasury officials, and in more important cases the Chancellor himself. Instead, therefore, of criticising subordinate officials, and perhaps laying undeserved blame on them, it will be better to go to the fountain head and deal with the heads of the Treasury.

That department had two opposite functions to perform towards traders. It had, on one hand, to administer the relief which Parliament had provided for them in

view of their uncollectible debts in foreign countries. On the other hand, it had to do an immense amount of business with them in connection with the arming, equipping, and maintaining of our military forces in the field. The Admiralty was still more dependent on them, as, in addition to clothing and feeding the men, it had to conduct a world-wide transport service for fuel, stores, guns, and war materials generally.

Beginning with the Samaritan side of the Treasury, we have to consider the relief it afforded to embarrassed traders. This was about the last of the long series of relief measures sanctioned by Parliament. Contrary to general apprehension, it was the most easily arranged. It went through smoothly and quietly, and ran its course in a very few months. The result, too, was unexpectedly favourable, the advances asked for having fallen far short of the original estimate, and the repayments having been surprisingly rapid. The operation as a whole indicated that our export trade at the outbreak of the war must have been in a thoroughly healthy condition, and the exporters as a class financially strong. It was a marvel how quickly they righted themselves.

Considering how many commercial authorities had to be consulted at the outset, and what a variety of plans had to be discussed, the conclusion ultimately arrived at was commendably simple. The Commercial Committee of the House of Commons, after the manner of politicians, started out with a big programme. At the request of the Government it interviewed the banks with a view to their co-operation in assisting traders having unrealisable debts abroad. A special sub-committee was formed to investigate this and a number of kindred questions. One ingenious proposal was made, that in the treaties of peace the various enemy countries should be held responsible for the collection of book debts owing to our traders and unpaid in consequence of the war. Happily, there will not now be very serious need to press that condition.

At first the cotton trade took a line of its own, and presented a special case to the Government. Negotiations

followed between the Treasury and the Liverpool Cotton Association, which resulted in a Government guarantee being given for one-half of the amount of the outstanding debts in enemy countries. The other half was to be provided in equal parts by the Association and by members' bankers.

From the end of August to the beginning of November the Treasury was engaged on the preliminary inquiries and arrangements for an export traders' relief scheme. On November 3 an announcement regarding it was made to the press, and on the 6th a Treasury minute was passed appointing an administrative committee. It consisted of representatives of the Treasury, the Bank of England, the joint-stock banks, and the Association of Chambers of Commerce of the United Kingdom. The task delegated to it was:

"the authorisation of advances in approved cases to British traders carrying on an export business in respect of debts outstanding in foreign countries and the Colonies, including unpaid foreign and Colonial acceptances which cannot be collected for the time being." The object in view was said to be "to assist traders by removing obstacles to the steady flow of business which have arisen through the temporary interruption of the ordinary channels of collection. The assistance to be given is intended to provide solvent traders with funds to continue their business and to pay their commercial debts to other traders or manufacturers. The banks have agreed that no part of the advances under this scheme shall be applied to paying off or reducing loans or bank overdrafts or meeting unpaid foreign and Colonial acceptances held by the traders' own bankers."

The reader should observe the wide scope of the scheme. It was not limited, as was generally supposed, to uncollectible debts in enemy countries. It extended to all foreign countries, and even to British colonies. Many of the outstanding debts in the two last categories had probably suffered only a short delay until the exchanges resumed their normal operation. And even the enemy countries turned out better in the end than could have been hoped for. The successful liquidation of the three

German banks and one Austrian bank in London doubtless helped materially toward that happy result.

The Foreign Trade Debts Committee opened its offices at 119 Victoria Street, S.W., and during the first three months it sent out to banks 2200 application forms. In reply it received many applications for large amounts, but very few from small traders. Even the large claims did not form a very big aggregate. All told, it was well under a million, the exact total having been £892,447. This was a mere fraction of the rather vague estimate with which the Committee started. The *Times* was somewhat wide of the mark when it spoke of experts having estimated that the amounts required might be anything from 10 to 100 millions sterling! Ten millions was, we believe, the maximum forecast, and even that has greatly overshot the mark.

As already stated, the chief credit of this favourable result must be given to the export traders. Comparatively few of them seem to have required assistance, and those who did made no attempt to abuse the fund. But there must also have been some virtue in the administration. The *modus operandi*, without being complicated or embarrassing to the applicant, was well safeguarded. There had to be three parties to each transaction—the trader, his banker, and the Committee—and the following formalities had to be gone through :

"A trader who has debts amounting possibly to £10,000 in Germany, £5000 in Austria, £1000 in Turkey, £5000 in Argentina, and other sums in neutral countries, can, if he is unable to collect them, make application to the Committee through his bankers for an advance. Having examined the facts submitted, which include a statutory declaration by the trader and a report by the manager of his bank, the committee in approved cases authorises an advance not exceeding 50 per cent. of the outstanding debts. The facilities given take the form of six months' bills drawn by the trader, accepted by the bank, and certified by the Committee."

The Committee had to examine debts scheduled for advances to the amount of £1,914,277. Of that £298,094

was from countries owing less than £20,000 each. The other £1,616,183 was owed by fourteen countries, of which the principal debtor was Germany with £512,401. The second largest was Russia, with £255,424, and the rest came in the following order—Autria-Hungary, £209,697; Turkey, £244,362; Belgium, £100,290; France, £89,051; Mexico, £77,995; Egypt, £42,096; Italy, £39,206; Bulgaria, £35,767; Chili, £30,384; Colombia, £28,140; Argentina, £26,145; Brazil, £25,325. Total, £1,944,277. The advances were limited to 50 per cent. of the approved debts, and if the above list had been granted in full, they would have called for £972,133. But up to the issue of the report only £892,447 had been paid out. There were, however, seven applications still pending, and they, no doubt, account for the difference between debts scheduled and advances made.

With a legion of committees at work helping the country to "carry on business as usual" during the war, various degrees of success or non-success were to be expected. The Foreign Trade Debts Committee ought to be recorded among the successful examples. Its members were Sir Henry Babington Smith (chairman), Sir Algernon Firth, Sir William Plender, Mr. Donald Maclean, M.P., Mr. Brien Cockayne, and Mr. G. H. Pownall. A first-class committee, with well-balanced proportions of official, professional, and commercial experience.

The relations between the Government and the shipowners did not proceed quite so smoothly as those between the Government and the foreign traders which we have just described. They were necessarily much more intricate and liable to serious disturbance in practice. Their two principal problems were, first, the requisitioning of transports and auxiliary vessels; second, the Government insurance of war risks. In the former case, very prompt action was taken by the Admiralty, the first proclamation on the subject having been issued on August 3—thirty-six hours before war against Germany was actually declared. It authorised the Lords of the Admiralty "to requisition any British ship or British vessel within the British Isles or the waters adjacent thereto."

Any flag officer of the Navy might be empowered by Admiralty warrant to requisition vessels "for such period of time as may be necessary, on condition that the owners of all ships and vessels so requisitioned shall receive payment for their use and for services rendered during their employment in the Government service, and compensation for loss or damage thereby occasioned, according to terms to be arranged as soon as possible after the said ship has been taken up either by mutual agreement between the Lords Commissioners of the Admiralty and the owners, or, failing such agreement, by the award of a Board of Arbitration to be constituted by them for this purpose."

A week later (August 11) the constitution of the Admiralty Transport Arbitration Board was announced. Its members were to be drawn from seven panels consisting of Government nominees, with representative shipowners, bankers, underwriters, marine insurance companies, insurance brokers, and average adjusters. Lord Mersey was appointed President of the Board, and Mr. William Walton, Vice-president. Subsequently the panels were extended to include representatives of the deck officers, marine engineers, seamen, firemen, and stewards. It was hardly surprising if such a cumbrous organisation did not work very easily or rapidly. But the Admiralty lost no time in finding plenty for it to do. Within a very short period no less than two thousand vessels of all classes and sizes were requisitioned and withdrawn from their regular employment.

From the Admiralty point of view that looked like a piece of splendid energy and enterprise, but it had quite the opposite effect on the shipowners. Not only did it cripple their individual trades, but it gradually created a dearth of shipping, which made itself felt in rising freights, higher prices of imports, and a sharp advance in the cost of living. Then the question arose if the Admiralty had not overshot the mark in requisitioning so extensively. A grave miscalculation seemed to have been made as to the effect of weakening our commercial fleet so seriously. There had also been an unfortunate oversight in leaving

hundreds of ships captured from the enemy lying idle in our ports when they might have been helping to fill the gap caused by the Admiralty in our mercantile service.

Difficult as the conditions were, the shipowners gave them a fair trial and little criticism of them was heard until they had been several months in operation. Then it was not the large owners who first complained. Many of the commandeered vessels were colliers required for the service of the fleet. Their withdrawal cut down the coal supplies of London and other large cities to such an extent that both lighting and heating were endangered. Forty-one municipalities in England and Wales answered the invitation to a conference to consider the effect of the diminished supplies of coal on gas undertakings. The conference was held at Manchester, and it decided to urge upon the Prime Minister to take immediate steps to increase the output of coal, and to improve railway transport.

A clear statement of the gas companies' dilemma was about the same time (January 1915) furnished by Sir Corbett Woodall, the chairman of the Gas Light and Coke Company :

> "Immediately upon the declaration of war," he said, "the provision of a large fleet of steamships became a necessity to the Government, and some 2000 of various sizes—very many of them colliers—were accordingly taken over. The number left was inadequate to the task of feeding London with coal. The stocks in hand fell rapidly, and, as a matter of course, freights became exceedingly high. A representation of the grave national danger attending a failure of the gas supply, as also that of other public services, was made to Lord Fisher, with the result that a number of enemy ships interned in our ports were made available for these services, and were now running. They were not nearly sufficient to remove the danger, but they had minimised it."

Here was an instance of Government interference with the ordinary course of trade being pushed so far as not only to raise unduly the cost of a prime necessary of life, but to restrict the supply, and thereby to endanger the

gas-lighting and other public services. This, of course, had not been foreseen by the Admiralty, much less intended, but it so happened that the Admiralty would have been great gainers by it had the arrangements with the shipowners been strictly enforced. They would have paid a very low rate per ton for the use of the colliers they commandeered and obtained a very high rate for the interned vessels which they subsequently chartered to traders—sometimes, it was said, to the same people whose vessels they had previously commandeered. It is such an interesting illustration of the peculiarities of Government trading that the chairman of the Gas Light and Coke Company may be allowed to describe the sequel in his own words :

"The Government, when commandeering the colliers, undertook to pay for them a rate of freight equal to about 4*s*. per ton carried, which was equivalent to about 30 per cent. rise upon the rate current before the war. Immediately, however, on its becoming evident that the free steamers—those left by the Government—were unequal to conveying what was required, the freight from the Tyne to the Thames was no longer 3*s*., but jumped to 13*s*. per ton. The present famine prices were regarded as the market rates, and were demanded of the company. Their own ships, which were paid for at a price of 4*s*., when lent back again to them were valued at three times that rate."

It is a pertinent inquiry what the Admiralty will do with the handsome profits they must be making in the shipping business. Their war risk insurance bureau is understood to be doing well, and their chartered colliers must be coining money. The only drawback to this good fortune is that the public are losers by it. The coal consumer has to pay in the end for the high freights and other abnormal charges which the Government shares with the lucky shipowners who escaped commandeering. Those who were commandeered consider themselves all the more unlucky, as their vessels are not only working for one-third of the current freight rate, but they are bound by onerous conditions which no private charterer would

have the cheek to propose. They can be retained for any length of time at the pleasure of the Government, or they can be thrown back on the owners' hands at very short notice. The owner is therefore debarred from looking ahead to obtain future employment for his ship, as he has no idea when the Admiralty will be done with it.

Ocean-going steamers had their own grievances against Admiralty commandeering. Not the least of these was the congestion in their trading ports, which was partly attributable to it. Their side of this question was fully explained at the annual meeting of the Liverpool Steamship Owners' Association on February 1, 1915. Mr. A. A. Booth, the chairman of the Cunard Company, stated what, in the opinion of the Association, were the principal causes of the congestion in the ports of the United Kingdom, namely:

"(1) The main cause was beyond question the shortage of labour; (2) the heavy demands made by the Admiralty on the Mercantile Marine for both officers and men. Many seafaring men along the docks who would under ordinary conditions have been tempted back to the sea by the advance in wages had responded to the nation's call for soldiers, whilst the Admiralty had made heavy demands on the services of the fishermen. In normal times some 30,000 foreign seamen are required to enable the oversea trade of the country to be carried on, but with mobilisation in Holland, Denmark, Sweden, and Norway, the sources from which the best of these men had hitherto been drawn had been closed. (3) The heavy demands made by the Admiralty on appliances such as tugs and lighters, and by the army upon the railway facilities, and especially upon the railway trucks. (4) The heavy demands upon the quay and warehousing space in the ports resulting from the Government importation of sugar."

Between them Sir Corbett Woodall and Mr. A. A. Booth established the fact of a very grave dislocation of the shipping trade in general and the coal trade in particular. That it was largely due to the action of the Admiralty is also pretty clear, but the necessities of the navy may have fully justified it. That is the one disput-

able point; and at the present stage, when so little is known as to the main facts, no definite judgment can be passed on them. It was certainly, as Mr. Booth pointed out, very paradoxical that with a shrinkage of 30 per cent. in the foreign trade of the United Kingdom there should be a great dearth of tonnage and a big increase in freight rates.

In the charter party which the Admiralty imposed on the owners of the commandeered vessels there were conditions of a one-sided sort that no private charterer would ever have presumed to suggest. He is only to be paid a profit if and when it is earned, and then it may be thousands of pounds under what might have been earned in private service. On this subject the following well-informed reflections were made at the time by the City editor of the *Morning Post:*

"When the Government commandeers a vessel for its own uses the British shipowner suffers severely thereby. His chief disadvantage, of course, is the fact that the Government will only pay him a profit which is usually many thousands less than he can make on the open market. It is well that the general public should fully appreciate this. But there is a further point to be considered, namely, that the shipowner does not know for what period his vessel will be retained by the authorities, and he cannot therefore arrange future employment for it. The Government charter party says that the steamer is chartered for one month 'and a further period.' No information is given as to what the further period will be. From a business point of view this condition is entirely inequitable, and there are many experts who hold that such a one-sided contract is of itself null and void. Needless to say, no shipowner will endeavour to withdraw his vessel when the nation needs it, at a time like the present; but no one who is not conversant with shipping business can realise what such a condition means. As the markets are to-day, owners are able to charter their vessels for loading as far forward as April and May; in other words, they can to-day assure themselves of profitable business for many months to come, whatever happens to the freight markets. But if the Government is using their vessels they are powerless to make any such arrangement, and, what is worse from their point of view,

their ship may be returned to them at a few hours' notice and at a spot where an entirely unprofitable market may exist. There is no other form of business in this country which labours under such a serious disadvantage."

The Liverpool steamship owners at their annual meeting had also something to say about the Government war risks insurance scheme. But here the Admiralty seem to have had a better defence to offer than in the commandeering question. The shipowners' complaint was that they were being charged rates which not merely covered the risks, but left an excessive margin of profit :

"The scheme now adopted by the State of insurance by the State against the payment of premiums would probably in the end cost the nation substantially more than a scheme of free indemnity. On the voyages started after the outbreak of the war the losses at the hands of the enemy in British ships and cargoes up to the end of 1914 had been estimated at £4,500,000, and it was probable that the insurances had cost at least £11,100,000, so that the consumer had had to pay in advanced prices very much more than the cost of the actual losses incurred, and probably more than the total amount charged for insurance by the State and by the open market. The Association held it to be essential, in order to obtain the full advantages of the State scheme, that the premiums should be maintained at rates sufficient to cover, but no more than cover, the probable losses."

When Mr. Booth thus spoke, the Kaiser's infamous submarine outrages were not yet foreseen, otherwise the Government's war risk rates might not have seemed excessive. As the day approached for the threatened running amok of German mines and submarines among neutral shipping in the bogus war zone, the rush for insurances became exciting. Lloyd's had the busiest week in its history, and the risks underwritten were believed to exceed £15,000,000. In face of this commotion the Government rates remained unchanged. This served to keep down rates on English shipping, and millions of pounds were underwritten at the official rate of 1 per cent. They may run off some of the large profits of the War Risks Office which the Liverpool shipowners regarded so enviously.

CHAPTER XIX

ITS AMERICAN EXCHANGE PERPLEXITIES

If any neutral country stood to gain by the war, and should therefore have been ready to make the most of it, it was the United States. It might have been expected to rush into the foreign markets from which Germany and Austria-Hungary had been completely cut off. The best of these lay at its own door in South America, and had long been coveted by American manufacturers and exporters. At the same time a splendid opening offered itself to New York financiers for capturing the monetary supremacy which London appeared to be in danger of losing for good and all. A still more fascinating prospect unfolded itself before the American growers of food and raw materials. With record crops of wheat and cotton, fortunes were to be made even if only normal prices were to be obtained for them.

The only doubtful spot in the situation was Wall Street. It had long been on the down grade in consequence of a return stream of American securities from Europe combined with commercial depression at home. On the eve of the war it was consequently not in a very hopeful mood, though there was nothing seriously wrong with it. It was nearly swamped with stocks dumped on it by European holders who had to "sell at best." If it had been able to carry the increasing load right through to the end it might have got out again, as it had done more than once, with handsome profits. But by the end of July the load had become too heavy for it, and the outbreak of the War Lord was the last straw on its overstrained back.

At this stage the United States had about 7500 national banks, 14,000 State banks, nearly 2000 savings banks,

and over 1500 loan and trust companies—in all, 25,000 banking institutions of one kind or another. The national banks had $711,000,000 of notes in circulation, and the Treasury had half as much in its own notes ($340,000,000 of the old greenbacks and $2,600,000 in Treasury notes of 1890). The paper money alone considerably exceeded 1000 million dollars, and there was as much metallic money besides, say 2300 million dollars in all. A country thus well furnished could hardly complain of monetary famine as far as regards its domestic business. It had more cause to be afraid of congestion. Nevertheless the first remedy that Congress applied to the crisis was a fresh dose of paper money.

On August 4, the day that war was declared between Great Britain and Germany, Congress passed a law enlarging the powers conferred on the Secretary of the Treasury by the Aldrich Vreeland Act (May 1908) and the Federal Reserve Act of December 1913. It empowered him to suspend various limitations and provisoes contained in these measures. It increased the proportion of emergency circulation allowable to any bank from 100 per cent. to 125 per cent. of its capital and surplus. But as a *quid pro quo* for that concession, it required from each bank a gold deposit at the Treasury sufficient in the judgment of the Secretary to ensure the redemption of its notes. This was to be in no case less than 5 per cent. of the issue.

The last clause of the Act contained a remarkable proviso, that the Secretary of the Treasury might at his discretion extend its benefits to all qualified State banks and trust companies which had joined the Federal Reserve system or which might give notice within fifteen days of their intention to join it. The Cabinet, with a steady eye to the success of their new banking system, used the war crisis as a lever for bringing in more adherents. It is to be feared that in doing this they were thinking more of domestic trade than of the international situation and the foreign exchanges. These, of course, should have been the first consideration, and if they had been, fewer expert conferences and "gold pools" might have been needed

subsequently. A large part of their work was undoing, or trying to undo, the mischief perpetrated by Congress in the first few days of the crisis.

The Federal Reserve system was still regarded with a certain degree of solicitude in conservative quarters. Even if it had started under normal conditions, it would have been attended with serious risks of at least temporary dislocation and disturbance. When the German thunderbolt fell among them these risks were increased a thousand-fold. But up to the last moment there was no thought of such a calamity either in New York or Washington. The Secretary to the Treasury was busy making the usual provision at this season of the year for the moving of the crops. On July 25—five days before the closing of Wall Street—he gave notice of his intention to deposit approximately $34,000,000 in certain cities throughout the country for crop-moving and other legitimate business purposes.

These "crop moving" deposits by the Treasury are a *bonne bouche* for the banks fortunate enough to secure a share of them. Only 2 per cent. interest is charged on them, and almost any kind of paper serves as security. Government bonds are taken at par; State, municipal, railroad, "and other" bonds at 75 per cent. of their face value; commercial paper also at 75 per cent. This is only one of the various forms of State aid given to the United States banks. A much larger measure of "emergency credit" is furnished by the Aldrich Vreeland Law, but in order to restrict its use, comparatively high rates are charged for it. In principle it resembles our own Treasury notes scheme, though in details it is worked out quite differently. The common object of both is to economise the use of gold in domestic circulation, and to enable the banks to husband their gold reserves when they are threatened by adverse foreign exchanges, and a consequent danger of gold exports.

What are officially known as the National Currency Associations were organised under the Aldrich Vreeland Law of 1908, which was limited to six years. It would have expired on June 30, 1914—the very eve of the war

crisis—but providentially it occurred to the authors of the Federal Reserve Act to introduce into that measure a clause extending it for another year. Their object evidently was to safeguard the circulation as far as possible from accidents which might occur during the transition from the old to the new banking system. Last August it came in handy, for a much more difficult occasion.

The Aldrich Vreeland, or as it is sometimes called, the Emergency Currency Law, is the last word of the Americans in bank notes. When the banks coming under the new regime have used up all the circulation which it has been deemed safe to give them on the security of their general assets, they are allowed in cases of stringency to make a further issue secured by a kind of second lien on the same assets. As already indicated, the law has in course of its short life been repeatedly modified—not in a conservative sense, but the reverse. A New York critic says of its latest edition, that Congress has by "the recent amendments so liberalised its provisions as to make it readily available to all sections of the country. But he is not blind to the danger of its being too freely availed of."

Under this law banks can increase their circulation up to the amount of their unimpaired capital and surplus (meaning by surplus their undivided profits). But before doing so they have to obtain the sanction of the Secretary of the Treasury, who has very wide powers in the administration of the law. He discourages individual action by the banks—though he may allow it when he sees fit. He prefers, however, that the banks should form among themselves National Currency Associations. These must be composed of not less than ten banks, possessing an aggregate capital and surplus of at least $5,000,000. The members of each Association become jointly liable for the whole issue, and have to bear the loss *pro rata*, according to their proportion of the aggregate capital and surplus.

Originally the maximum issue was fixed at $500,000,000, but in the latest amending Act the limit was raised to

$1,442,000,000. The scale of taxation has also been modified. Instead of 5 per cent. per annum for the first month, and an additional 1 per cent. for every succeeding month up to 10 per cent., the following rates are now levied: for the first three months, 3 per cent. (per annum), and for each succeeding month $\frac{1}{2}$ per cent. additional up to a maximum of 6 per cent. This was a much more liberal arrangement for the banks, and indirectly for their customers, than that of 1908. It is significant, however, that no advantage was taken of it until the war-cloud burst.

Months of banking and currency legislation had spread a vague feeling of nervousness throughout the United States when the crowning catastrophe happened. It was quickly intensified by the wholesale closing of stock markets and the proclamation of moratoria. All of a sudden the supply of foreign exchange in New York was cut off. Sterling exchange especially—that is, drafts on London—became unobtainable. As much as $5\frac{1}{2}$ and 6 dollars were offered for them in place of the normal $4.87 cents. The banks were seized with alarm about a heavy drain of gold to London, and applications for emergency currency began to pour into the Treasury from all sides. Between August 3 and August 19—little more than a fortnight—issues were made to the aggregate amount of $154,085,000. The lion's share of them went, of course, to the Eastern States, who got amongst them nearly a hundred million dollars ($97,964,000). Massachusetts had $9,428,000; the thirteen Southern States, $8,768,000; and the Western Middle States, $34,445,000. The demand for them appears to have stopped short at the Mississippi, as the Western States applied for a mere trifle of $180,000, and only $3,300,000 reached the Pacific slope. By August 19 the various groups of States had had maximum allotments made to them by the Secretary of the Treasury, the respective balances of which they were at liberty to apply for as required.

All the principal movements of the American markets during the first half of the year indicate that their attention was chiefly devoted to domestic affairs. A European

war was about the last thing they were thinking of. Their most absorbing topic was the new banking system, which was being gradually and cautiously brought into operation. The law under which it was being organised had been on the Statute Book since December 23, 1913. In June the Federal Reserve Banks were being rapidly formed, and their directors elected. On August 13 the Federal Reserve Board—the crown of the elaborate edifice—held its first meeting. In the midst of these pacific operations the tragedy at Serajevo on June 24 dropped like a bomb from a Zeppelin. It was not a good omen for the new banking regime.

When the Federal Reserve Board got to work, it found waiting for it a variety of problems quite different from what it had anticipated. One of them was a subject destined soon to become the *bête noire* of Wall Street, Lombard Street, and Capel Court. On August 29 the following notice was issued :

"The Federal Reserve Board has invited to a conference to be held in Washington on Friday, September 4, representatives of the Clearing House Associations in the Federal Reserve cities and certain other reserve cities which deal in foreign exchange. This conference will discuss general conditions, and particularly the credit situation between the United States and Europe. Representatives have been asked to bring the latest condensed statements of their Clearing House Associations, and such data as it is possible to furnish regarding the present United States' cash indebtedness to Europe and maturing obligations, and *vice versa*, similar indebtedness of Europe to the United States."

The seven principal banking centres in the Union—New York, Chicago, Boston, Philadelphia, Baltimore, St. Louis, and San Francisco—were invited to form a special committee for collecting data. It was to consist of the President of the local Clearing House Association and two local merchants. In addition, each of the Federal Reserve cities was to send two delegates to the conference, and seven other cities were to send one delegate

each. Altogether a comprehensive representation of American business men was obtained. But the result of their deliberations was not proportionately impressive. Many plans to release the foreign exchange deadlock and restart the current of international credit were discussed, but nothing better than the primitive and clumsy method of gold shipments could be suggested. It was provisionally agreed to invite bankers all over the country to contribute to a gold " pool " or syndicate. A committee of leading banks, presided over by Mr. Forgan, of the First National Bank of Chicago, was appointed to work out the details of such a scheme and present it to the Federal Reserve Board. This report was received in due course, and underwent vigorous discussion, there being many financial authorities opposed to any exceptional action. It was, however, approved by the Federal Reserve Board and the Secretary of the Treasury, who at once asked the Clearing House Associations to assist in carrying it out.

Its main principle was that a gold fund of $150,000,000—afterwards reduced to $100,000,000—should be raised by subscription among the banks. An administrative committee representing the Clearing House Association of New York was empowered to call upon the subscribers from time to time for instalments of their subscriptions, to be paid in gold or gold certificates. There was a significant proviso that no instalment should be payable which would raise any bank's share in the fund to more than 25 per cent. of its original contribution. The effect of this limitation, if rigidly enforced, would have been to reduce the effective power of the fund considerably.

In applying the fund, the Clearing House Committee had to " arrange for shipments of gold to other countries, to sell, exchange and cable transfer against such shipments at such prices as they may fix, to determine to whom and under what conditions foreign exchange may be sold, to distribute the proceeds of such sales among the contributing banks in New York funds, and to fix a date for the termination and final settlement of the fund." The gold and gold certificates were to be deposited in the

vaults of the Clearing House Association, who were to issue receipts and endorse them with the repayments made. Though at first a general subscription by banks of all classes had been thought of, that plan was given up on perceiving that the payments of the interior banks might be made to a large extent by drawing gold from their balances in the reserve cities. It was then decided to draw only on the central reserve and reserve cities which could pay the instalments out of their own cash.

The list of principal contributors and their respective amounts are noteworthy. New York City put up $45,000,000, or almost half of the total $100,000,000. Chicago came second, but a long way behind the leader, its total having been $16,000,000. From the second to the third there was another long drop, Pennsylvania's quota having been only $8,000,000, Boston's $7,000,000. The $5,000,000 of St. Louis, the $3,500,000 of San Francisco, and the $3,000,000 of Pittsburg indicate a very moderate degree of interest in the movement among the interior banks. As regards St. Louis, it may also be worth further remark, that the German element there is exceptionally strong. The brunt of the experiment fell on New York, as was quite natural and to be expected. Even here it had to meet a variety of obstacles and objections which may have been partially responsible for its qualified success.

On the other hand, if the experiment did not achieve very great results, it afforded a large amount of instruction to those immediately concerned in it. Perhaps the best lesson they learned from it was the comparative futility of artificial movements in the foreign exchange market. This is the market which above all others requires to be free and spontaneous. The incidental discussion to which it gave rise sharpened the wits of both sides and added much to the practical experience of New York bankers generally. The arguments pro and con have been lucidly summarised in the financial literature of the day, notably in the monthly report of the National City Bank. In the October issue of that

report a skilful writer—presumably Mr. Vanderlip himself—states the objectors' case thus :

"They have urged that important sums are owing to the United States in foreign countries, and are uncollectible at present because of the moratoria in force, and that these sums are a proper offset to the debts we owe, that world conditions are wholly abnormal and incalculable, and that there is no knowing when security markets and trade relations will become normal, or how much gold will go out if we relax our grasp upon it ; that we had nothing to do with creating existing conditions, but have as much right to protect ourselves in the universal disorder that has resulted as the combatants have to suspend not only gold payments but the laws for collecting debts, forbid exportation of commodities, seize goods consigned by neutrals or owned by neutrals, and do other arbitrary acts affecting the rights of neutrals on the plea of military necessity."

Then a peculiarly American view emerges in the final example given of the objections to the \$100,000,000 gold fund, namely, that "the existing state of affairs, while deplorable, has the effect of discouraging further purchases by our people abroad, and of encouraging foreigners to take our commodities in settlement of the present indebtedness, and that the situation will work itself out in this manner with more safety and possibly in shorter time than by attempting to restore the equilibrium through gold shipments."

It can hardly be doubted that arguments like these have had considerable effect among a certain class of Americans. German-Americans especially would catch at all such plausible objections to any scheme for the apparent benefit of London, though for that matter the German bankers in New York would have found out ways of turning it to the advantage of their own country. The firm hold they have on both of the great international markets—money and stocks—gives them equal power over the European exchanges. The uncertainty which has prevailed throughout the crisis as to their real position and the policy they were pursuing has been one of the baffling elements in the situation.

But, after all, the $100,000,000 gold pool came to a harmless end. It was soon overshadowed by the conferences at Washington between the agents of the British and United States Treasuries. Meanwhile natural causes, combined with a little patience, brought sterling exchange back to a normal level. Then a new series of abnormal events drove it farther and farther down, until it reached a level as extremely low as the previous one had been extremely high. In March, 1915, it became as difficult to remit from London to New York as it had been in the preceding October to remit from New York to London. The most level-headed financial authorities never had much faith either in lowering or raising sterling exchange by main force. The *Financial Chronicle* of October 17 thus commented on the inconsiderable results so far achieved :

" Thus far the operations of the managers of the $100,000,000 Gold Pool have not resulted in a lowering of sterling exchange quotations to any important extent. A feature of the week has been the continued lowering of short contracts by speculative interests who had expected the Pool's operations to produce an immediate decline in sterling exchange rates. . . . So far as the Gold Pool is concerned, the committee that has charge of its foreign exchange operations continues to consider it necessary to maintain complete secrecy as to rates and the volume of bills that have been sold."

A real solution of the sterling exchange dilemma was further retarded by the fact that Washington was at cross purposes with New York in the matter. Contradictory tendencies prevailed at the political and financial centres. While the foreign exchange experts were anxiously laying their heads together, Congress and the Secretary of the Treasury were taking steps which hardly tended to lighten the problem, but rather the reverse. Both of them were still dominated by the traditional dread of American traders that there would not be money enough to go round. They not only wished to mobilise every dollar of credit that could be created by the banks, but

they must needs have it all available for local use. It was now a question how to issue notes against less liquid assets than negotiable securities and commercial paper. An extension of warehouse certificates first suggested itself to the elastic currency mongers. A most eligible subject was already waiting to be taken in hand, namely, cotton. With a 15,000,000 bale crop in prospect, and the future outlet for it diminished by at least a third, some serious financing was evidently to be called for.

So the cotton crop was taken in hand as an emergency war measure. A Bill was introduced into the Senate authorising the Secretary of Agriculture to issue licences for cotton warehouses and to investigate the storage, warehousing, and certification of the same. Its ostensible object was "to improve the borrowing value of cotton certificates," but there was a further idea in the background, that it might serve to keep a large portion of the coming crop off the market long enough to avert a collapse in prices. Being a war measure, it was limited to a period "not exceeding nine months after a treaty of peace has been ratified between Great Britain and Germany," but in no event was it to remain in force longer than two years.

The Bill as originally drawn applied to cotton only, but at Washington legislation is conducted largely on the snowball principle. What is good for one thing is often found in its passage through Congress to be good for another. In the discussion of the Cotton Warehousing Bill the Oregon senators realised that it might equally apply to their staple export—canned salmon. Their request to have canned salmon included was, of course, granted with the usual senatorial courtesy (not to be mistaken for log-rolling). Then other senators put in claims on behalf of tobacco, grain, flax seed, and so on. How the Bill finally emerged from Congress it is difficult to discover, but in its mildest conceivable form it would be capable of causing a fair amount of currency disturbance. The deliberations of the foreign exchange experts were complicated and stultified in advance by the rival operations of the cotton financiers—not, perhaps, inten-

tionally or of *malice prepense*, but on the simple human principle that a bird in the hand is worth two in the bush. In the eyes of a New Orleans or a Seattle man, whatever affects New Orleans or Seattle is infinitely more important than things that concern New York or London.

By August 27 the new warehouse receipts appear to have been duly authorised. On that date Mr. M'Adoo, the Secretary of the Treasury, announced that he was ready to issue them against deposits of cotton and tobacco. "I have decided," he said, "to accept from national banks, through their respective National Currency Associations, notes secured by warehouse receipts for cotton or tobacco, and not having more than four months to run, at 75 per cent. of their face value." Then he explained the nature of the security that would have to be given for them: "The banks and the assets of all banks belonging to their Currency Association will be jointly and severally liable to the United States for the redemption of such additional circulation, and a lien will extend to and cover the assets of all banks belonging to the Association, and to the securities deposited by the banks with the Association pursuant to the provisions of law."

It is impossible to ignore the danger that even a small amount of country store currency of this sort may cause to the larger finance, which should be first considered and safeguarded. That it materially helped to prolong the paralysis of foreign exchange in New York can hardly be doubted. It is indeed evident in the very nature of the case. The larger the proportion of their assets that the banks pawned for the sake of note circulation, the narrower would be the margin available for international transactions. By the time that they had taken out—first, regular notes; next, emergency notes secured jointly and severally by a group of banks; and finally, notes secured on warehouse receipts, there would not, in many cases, be much left to pawn. Meanwhile, nothing had been done to relieve the foreign exchanges and set them once more in motion. The deadlock was growing worse rather than better all through August and September.

In dealing with sterling exchange the differences between English and American banking methods are often overlooked. Few, if any, American banks follow the London practice of allocating certain proportions of their available resources to different classes of business—so much for the bill market, so much for the Stock Exchange, so much for commercial advances, and so on. They have nothing even in New York exactly corresponding with Lombard Street, where scores of millions of money are kept liquid in order to meet the bills which are being drawn on London every day of the year and by every country in the world. In this respect Lombard Street is unique. When it breaks down it cannot be replaced. The rest of the world has to wait until it is set on its feet again or gets on its feet by its own efforts. On the same principle, the London bill market is not an air-pump which can be taken to pieces when it gets jammed and by some clever manipulation can be restarted. The foreign exchanges will resume working of their own accord as soon as there is proper foreign exchange work to do, but not until then. Neither at the London end nor the New York end can they be set in motion and kept moving artificially.

CHAPTER XX

WAR BILLS FOR THOUSANDS OF MILLIONS STERLING

In this world war everything is on such a colossal scale that even the Chancellor of the Exchequer himself can have only the haziest notion of what its financial results are likely to be. They depend upon a variety of events, all stupendous in their magnitude and very intricate in their character. Until we can tell how long the war may last, how many thousands of men we may have to put in the field, how much our Allies may need in the way of subsidies and advances, what further costly operations we may have to undertake against the enemy, how our home and foreign trade may be maintained, how successful we may be in warding off distress among the people left at home, how future loans may be taken up—and many other contingencies of the same kind, it will be impossible to estimate to a few hundred millions how much borrowing may have to be done.

So far from being able to anticipate the total amount of new war debt that is in store for us, we have only vague ideas of the actual rate at which the war expenditure is proceeding. The Chancellor of the Exchequer has seldom alluded to that delicate point, and his few allusions have been vague—necessarily vague, we frankly admit. The House of Commons waited very patiently all through the autumn sittings, and its first detailed information was supplied to it within a few hours of the adjournment at the end of November. On November 27 the Chancellor of the Exchequer gave the House a comprehensive review of the hundred and one emergency proceedings which the Government had taken since the outbreak of the crisis in July. Then, in summing up the situation at that particular moment, he said :

"The British money market is now in a better position than any other money market in the world. We are borrowing there at the present moment while we are engaged in a war costing from £300,000,000 to £500,000,000 a year, and other countries are also coming here to borrow money."

As to the loan operations already carried through, he added :

"We have raised the largest loan ever raised in the history of the world for any purpose. We have done it in circumstances of stress, and the success of the loan can be regarded as the just vindication of the steps we have taken. We had already raised £90,000,000 for the same purpose, and practically we were raising £440,000,000 in the same market, for the same purpose, and under the same conditions."

The Chancellor did not really mean that £440,000,000 was being added to the national debt right away. The £90,000,000 was raised in six and twelve months' Treasury bills, which were to be repaid out of the £350,000,000 War Loan. It was calculated that the war expenditure up to the end of the current financial year (April 5, 1915) could be met out of the £350,000,000, after providing for advances to the Dominion Governments estimated at £42,250,000, to the Belgian Government £2,910,000, and to Serbia £800,000—altogether £45,916,000. These advances were to be made by the Treasury "out of the proceeds of any general war loan or loans which may be raised by his Majesty's Government." They may not, therefore, have come entirely out of the £350,000,000, but if they did, there would still be over £300,000,000 left for our own proper war charges. The actual amount of the deficit that had to be met by loans was £321,321,000.

India, the British Dominions, and the Colonies are paying their own war expenses, and their share may by this time be getting close to £200,000,000. Most of the money, however, will have to be borrowed in London to start with, and it will only be by degrees that war taxes can be brought in to the help of loans. It may take years to make up the final accounts and formulate

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the heroic fiscal policy which will be found necessary for their liquidation. The House of Commons has, therefore, some excuse for putting off the evil day when this greatest financial problem that any Government or any Legislature ever had to face will have to be grappled with in earnest. It has practically shut its eyes to the terrific expenditure that is going on, and meekly accepts the Chancellor's occasional allusions to the millions on millions which will have one day to be provided by the taxpayers.

The Chancellor, on his part, does not quail before the gigantic totals he sees accumulating in front of him. On the contrary, he generally speaks as if he were proud of his inexhaustible supply of silver bullets, and would not hesitate to use them to the last one. At first he dealt with hundreds of millions, but as the war progressed he got up to billions. In the first of his financial statements, that of November 27, 1914, from which we have already quoted, he had to deal only with the proper expenditure of the United Kingdom. But in the second—that of February 15, 1915—in reporting the results of the Anglo-French-Russian Conference at Paris, he had to treat of the Allied expenditure as a whole. The figures he used were well calculated to take away the breath of any popular Parliament, but the House of Commons heard them without flinching. From hundreds of millions he now got up to thousands of millions, and even then he lagged behind some of the forecasts of pessimist statisticians. He began with the too truthful remark that:

"This is the most expensive war that has ever been waged, both in material, men, and money. The conference at Paris was most concerned with money. For the year ending December 31 next, the aggregate expenditure of the Allies will not be far short of £2,000,000,000. The British Empire will be expending considerably more than either of our two great Allies—probably up to £100,000,000 or £150,000,000 more than the higher figure to be spent by the other two great Allies. We have to create a new army. We have to maintain a huge navy. We are paying liberal separation allowances. We are sending troops to the ends of the earth. We have to wage war

not merely in Europe, but in Asia and in North-east and South Africa."

It was perhaps unavoidable that the Chancellor had not only to use very round figures, but to put them in an ambiguous form. He turned them, in fact, into a conundrum. Given a total expenditure of £2,000,000,000, of which the share of the British Empire is to be £100,000,000 to £150,000,000 more than that of the next highest of the three Allies, find their respective shares. If they were spending at an equal rate, the £2,000,000,000 would have to be divided equally among them, and each share would be £666,000,000. If we add to the British share £100,000,000, it will be raised to £766,000,000, which, deducted from £2,000,000,000, will leave £1,234,000,000 to divide between France and Russia, say £617,000,000 each.

In the Budget speech of May 4, 1915, a little more light was thrown on the rapidly accumulating millions of expenditure. Mr. Lloyd George presented two estimates —or rather forecasts, for at this stage estimates in the ordinary sense were out of the question—of the amount of borrowing that might still be required. The first was based on the by no means hopeful possibility of the war ending in September next, and the second on the more probable event of its continuing until the end of the year. In the first case the total expenditure to be provided for would be £786,678,000, and in the second it would be £1,132,654,000. After deducting an estimated revenue of £270,332,000 the deficits to be met by loans would be £516,346,000 and £862,322,000 respectively. These huge sums, however, included the normal peace expenditure of the year, which we may take in round figures at £200,000,000. The amounts properly chargeable to the war would, therefore, be for the six months £316,346,000, and for the whole year £662,322,000. To the latter sum add the £333,780,000 of war deficit which had accrued at the end of the past financial year, and we get £996,102,000, dangerously near the round thousand millions sterling!

Hair-raising as Mr. Lloyd George's thousands of millions may sound, they are more likely to be under the

mark than over it. As to the expenditures of the other belligerents, our information is even more vague and conjectural than as to our own. Many ingenious calculations, British and foreign, have been published from time to time, but they can only be regarded as intelligent anticipations. Though they serve well enough for statistical academics, they can be of little use to taxpayers anxious to get some idea of how much their fiscal burdens are likely to be aggravated by the cost of the war. One of the most curious estimates yet to hand comes from a German source, but it is not Prussian—it is socialistic. The Socialist organ, *Vorwaerts*, published in January last the following estimates of the war expenditures of the various belligerents up to that date:

"Up to December 10 the war bill in France totalled £257,640,000, of which amount Belgium had received £10,000,000, Serbia £3,600,000, and Montenegro £260,000, and a loan to Greece of £800,000.

"The daily cost for France amounts therefore to some £1,840,000.

"Russia spent during the first three and a half months £192,750,000, and her daily bill is about £1,835,000.

"England, France, and Russia together are daily spending about £4,600,000, and, as they together have probably not more than eleven million soldiers, each soldier costs about 8*s.* 5*d.* daily.

"It stands to reason that the cost of the war for Germany and Austria is about the same, which would make for both States, with a mobilised fighting power of some ten million men, a daily expenditure of £4,200,000.

"Then the cost of the Belgian, Serbian, Turkish, and Japanese armies must be added, which can be estimated at the lowest at £400,000 per day. All the belligerent Powers together have therefore a daily war bill of at least £9,600,000."

The German professors who have been working for years on the problem of war costs arrived at more economical conclusions than the above. French economists, on the other hand, have generally been higher in their estimates. A specimen of each of them is given below, together with a rough guess at the indirect damages caused by military occupation:

"Professor Wolff, who recently published a book concerning war costs, estimates the daily cost of the war for all belligerents at £7,500,000.

"'Our reckoning,' remarks the *Vorwaerts*, 'which does not rely on estimates, but on official facts furnished by the belligerents, comes nearer to the mark, and is much higher than Professor Wolff's estimates. The costs of mobilisation are included. The future cost will be not lower, but still higher. Professor Wolff is of opinion that the costs for each man will not amount to more than 7*s.* per day. M. Yves Guyot estimates them at 10*s.*'

"The first five months of the war have therefore cost about £1,540,000,000, without the damage done through the war, and without the loss to industries. The indirect cost of the war as regards the industries is much bigger than the direct cost. The damage done in Belgium is estimated at £266,000,000."

At first glance it may seem strange to select a Socialist organ as an authority on war finance, but it has always been a favourite topic of Socialist writers and speakers in Germany. More than once the late Herr Bebel found it a powerful weapon in opposing the militarists in the Reichstag. In the Morocco crisis of 1912 he delivered a famous anti-war speech, in which he calculated that every day of mobilisation would cost Germany 45,000,000 to 50,000,000 marks (£2,250,000 to £2,500,000). This was assuming a maximum number of 5,000,000 in the field, but that has been nearly, if not quite, doubled. The *Vorwaerts* has therefore some ground for estimating the joint war expenditure of Germany and Austria at over £4,000,000 per day.

Against these German calculations may be set the latest estimates of M. Yves Guyot, in the *Nineteenth Century*. He reckoned that if the war should last only for six months, the loss of productive power alone would be £830,000,000 in Germany, £600,000,000 in France, £100,000,000 in Great Britain, and £58,000,000 in Belgium. Long before the end of the first six months these figures were out of date. They are now ancient history, and the calculations of our own military financiers go far ahead of them. An article in the

January number of the *Round Table* on "War and Financial Exhaustion" estimated the total number of men then in the field at 20,000,000, and averaging them all round at 10*s*. per head per day, it concluded that they were costing £10,000,000 daily. The writer divided this amount among the belligerents as follows: Great Britain, £1,000,000; France, between £1,500,000 and £2,000,000; Russia, about £2,000,000; Austria-Hungary, between £1,500,000 and £2,000,000; and Germany nearly £2,000,000. Belgium, Servia, Montenegro, Turkey, and Japan, though operating on a much smaller scale than the chief belligerents, would amongst them make up a very considerable daily outlay—say £500,000 or probably £750,000. This added to the £9,000,000 of the chief belligerents, would come very near the above aggregate of £10,000,000 a day for the whole of the fighting forces.

There are several other points of interest connected with our own war debt. The first and most urgent is the probable amount of the annual burden it may entail on the country. In this calculation there are three essential factors—all as yet unknown. Assuming an ultimate total of 2000 millions sterling, what are likely to be the terms on which the loans still needed may be raised? The more there are of them and the larger their amounts the heavier will be the annual charges on them. It would be too sanguine to hope that they can all be raised on as favourable terms as the initial £350,000,000 loan has been. It will be safer to anticipate an average interest charge of 4½ per cent. all over.

There will also have to be specific provision made for redemption within a reasonable period. Consols at 66½ have put an end to the permanent annuity system, of which they used to be the honoured type. It is now generally recognised in the City that the day of permanent annuities is over, and that even the British Government can no longer hope to raise unlimited sums of money to be repaid at its own pleasure and convenience. In future it is the lender who will decide how long the loan is to go on and when it is to be repaid. He will, of course, allow ample time for the borrower to work out a proper scheme

of redemption. But guarantees will have to be given that the scheme is to operate automatically, without interruption, and with no risk of falling short of its object.

Assuming that fifty years would be a convenient period over which to spread the redemption process, this gives us an annual charge of 11*s.* per cent. to add to the $4\frac{1}{2}$ per cent. interest rate aforesaid. Thus we may prepare ourselves for a combined interest and redemption rate of 5 per cent., which on 2000 millions sterling would amount to £100,000,000. A third question now arises—What set off, if any, against this tremendous new burden can we look for in any direction? There may be a German indemnity of some sort, but after Belgium and France have been compensated for the devastation they have suffered, there may be little left for us except "The Hymn of Hate." True, it would not be difficult for the Allies to hold all the German ports for so many years after the signing of peace, and levy both import and export duties on German trade. That would be killing two big birds with one stone—inflicting well-deserved punishment and exacting an indemnity by annual instalments, which we can hardly expect to get in a lump.

Failing German contributions to our war debt charges, there will be one other resource—severe retrenchment at home. Alas, that once magical word seems to have lost all its fascination for its former champions. But they may soon find themselves hard up against it again—and on the wrong side of the fence too! Out of a £270,000,000 budget it should surely not be impossible, after the war, to save enough to cover nearly, if not quite, the whole of the annual charge on the new war debt. But where should retrenchment begin—with the Civil Service, the Army, or the Navy? The Chancellor of the Exchequer and his friends have in their own minds marked out the military services for heavy pruning. They confidently anticipate such a beating down of the Germans to their knees that we shall have little further need either for Dreadnoughts, submarines, or airships. Sir George Paish, in one of his American interviews, predicted a huge reduction of the

navy right away as soon as peace was signed. In a New York paper of November 25, 1914, he is reported to have said:

"Once the war is over, Great Britain would in a few years have saved more than the cost of it. With militarism crushed, as it inevitably would be, the rate of expenditure for defence purposes would be cut in half, thus saving more than £40,000,000 a year."

In saying this the Chancellor's late financial adviser was simply echoing what the Chancellor himself had said a week earlier in the House of Commons. The following prediction occurred in a speech of his on November 17:

"I hope that there will be a great reduction in the cost of armaments as the result of the war. I would regard the war as having failed in one of its chief purposes unless it led to an all-round reduction in the inflated cost of armaments."

Let us hope that the Chancellor and Sir George Paish have not been preparing another bitter disappointment for themselves. Up to the last moment they would not believe in war, and now they fondly hope that this is the final war which is to kill war. But it may not be, and if their expected halving of "the expenditure for defence purposes" does not come off, what then? Much against the grain, the pruning-hook will have to be applied to a bloated and costly Civil Service. If a bold beginning be made with the Civil Service, why not go on to the municipal service, which, in some ways, is even more bloated than the national establishment? According to the annual report of the Inland Revenue Commissioners for the year ended March 31, 1914, there were 585,242 public officials, secretaries, &c., assessed to income tax, and the aggregate amount of their assessments was £135,608,000. But they paid on little more than half their total incomes. Deductions, abatements, allowances, &c., struck off £64,428,000, leaving £71,180,000 on which the tax was actually paid.

Whether such an army of officials is absolutely necessary is one of the first questions which a retrenchment committee would naturally ask. The necessity for it is

certainly not apparent on the surface. The fact of its having increased so rapidly of late years rather points the other way. In the year 1912–13 it gained over 36,000 in number and £8,418,000 in assessed income. In 1911–12 it increased by 27,000 and £7,490,000; in 1910–11 by 27,290 and £5,868,000. In the last complete year of Unionist finance (1904–5) the number of Government, corporation, and company officials assesssed was 386,342, and the aggregate assessments £89,374,000. Their increase in the next eight years to 585,242 and £135,068,000 was at the rate of fully 50 per cent.

It is unfortunate for this important inquiry that company officials should be lumped together with Government and corporation officers. The reason for it is not self-evident, and anyone may see at a glance how desirable it would be to have them separated. But even the confused totals given in the Inland Revenue reports exhibit ample scope for retrenchment. Company officials are already feeling the pinch of the war in reduced and sometimes complete loss of salaries. Are well-paid public officials to escape entirely?

Generations of economists and statisticians have speculated on the limits of taxable capacity and borrowing power in various countries. Their calculations are all very entertaining to look back upon—they have been so completely falsified by events. If they could revisit the scene of their ingenious labours they would stand aghast at the mountains of national debt which are being comfortably carried by Great Britain, notwithstanding their century-old declarations that it was impossible. In William the Third's reign perhaps 50 millions would have been considered the limit of fiscal endurance, but when George the Third came to the throne in 1760, the funding snowball was over 120 millions. People who were shocked and alarmed at that amount of debt may have lived to see it at the close of the American war swelled to 230 millions.

Their children saw that substantial total more than doubled. At the Peace of Amiens, which closed the first stage of the Napoleonic war (1802) the national debt

amounted to £537,653,000. Then alarmed pessimists began to proclaim the impending breakdown of the funding system. One of the most effective critics of this class was Tom Paine, who, writing in Paris, compared the French and English methods of public borrowing, greatly to the advantage of the former. In his *Decline and Fall of the English System of Finance* he wrote :

"The English system differs from those of America and France in this one particular, that its capital is kept out of sight—that is, it does not appear in circulation. Were the whole capital of the national debt, which at the time I write this, is almost four hundred million pounds sterling, to be emitted in assignats or bills, and the whole quantity put into circulation as was done in America and in France, these English assignats or bills would sink in value as those of America and France have done, and that in a greater degree because the quantity of them would be more disproportioned to the quantity of population in England than was the case in either of the other two countries. A nominal pound sterling in such bills would not be worth one penny."

Paine ventilated in the same book an ingenious theory that the cost of European wars tended to increase in an ascertainable ratio, of which he gave some remarkable examples. He also held that the national debt increased *pari passu* with the war bills. The ratio of increase was not arithmetical or geometrical, but in a series of one-half of the preceding number—thus, 8, 12, 18, 27, 40, 60, 90, 135.

Beginning with the war of 1697, Paine found that it cost $21\frac{1}{2}$ millions, and the next one $32\frac{1}{4}$ millions. If entirely financed by loans, they would have left behind them a national debt of nearly 54 millions. The actual total of the national debt at this period (1728) was stated by Adam Smith to be 53 millions. Smith, too, was a pessimist on the funding system. In his final chapter on public debts in *The Wealth of Nations* (1756) he said :

"The progress of the enormous debts which at present oppress, and will in the long run most probably ruin, all the great nations of Europe has been pretty uniform."

Tom Paine's 50 per cent. ratio of increase on the cost of successive wars he further illustrated by the wars of 1739, 1756, 1775, and 1793. These he alleged to have cost 48, 72, 108, and 162 millions respectively. In some cases, though not in all, he came near the mark. It would be interesting to continue his ratio through the great wars of the nineteenth and twentieth centuries down to our own day. The series would be 243, 364, 546, 819, and 1228—the 1228 being not a bad forecast of the war bill now running up against us. But the practical conclusion which Paine drew from his calculations went far astray. He considered that the funding system "was now advanced into the last twenty years of its existence." It might be fairly safe to say that to-day, but in 1796 it was decidedly premature.

In those days war was dirt cheap compared with what it is now. All the campaigns of William the Third in England, Ireland, and the Low Countries added only 12 millions sterling to the national debt. The splendid victories of Marlborough and Prince Eugene were paid for on the nail, excepting what we would now consider a trifling 23½ millions. Previous to the middle of the eighteenth century, war finance was a very primitive business. When money had to be raised for a new campaign, an appropriate war-tax was voted, whatever article came handiest being made the victim. The Chancellor of the Exchequer could then start out with it among the bankers and the goldsmiths to see how much he could raise upon it.

Eighteenth-century bankers did not favour long loans. While political conditions were so unsettled, they preferred high rates and quick returns. What suited them best was annuities for fixed periods. Their money thus began to come back to them almost at once, and continued to return until the debt was cleared off. While the total of the national debt remained under 50 millions—and it did not cross that line until the accession of George II (1727)—there was some hope of one day getting even again. But the Spanish War, at which Carlyle poked so much ponderous fun, describing it as a European blaze

over Captain Jenkin's ear, heaped up another 30 millions. This was reduced in the subsequent eight years of peace by rather more than a million, and in 1748, when the Treaty of Aix-la-Chapelle was signed, it stood at £77,489,000.

Here a new era began, which has extended down to our own time—the funding age, with its bewildering consolidations, conversions, sinking funds, and other financial paraphernalia. It has a double interest for us just now, because we find ourselves involved in its final failure. Consols unsaleable at an official minimum of $66\frac{1}{2}$ are the last word on the funding system which took its rise 160 years ago. It was in 1751 that the sweet simplicity of the Three per Cents originated. After many vicissitudes they were reduced in 1888 to Two and a half per Cents, that having been in the opinion not only of Lord Goschen, but of all the financial authorities of the day, the probable standard of British Government credit in the future. What these authorities would have said if they had seen a British $3\frac{3}{4}$ per cent. selling at $94\frac{1}{4}$—in other words, yielding 4 per cent.—and Consols officially pegged up at $66\frac{1}{2}$, we need hardly ask.

The two stocks now standing together at the head of the gilt-edged market are typical of the old and the new systems of public borrowing. Consols typify the funding system, which brought them into existence in 1751, and which is now going out with them. The War Loan typifies the new form of terminable stock, which was first tried on a small scale during the Boer War, and is now about to expand itself into the most colossal credit operations the world has ever seen or dreamt of. Whatever may be their ultimate amount—whether 1000, 1200, or 1500 millions—it will revolutionise our fiscal system, and may entail many reversions to old-fashioned fiscal ideas and doctrines.

In passing from the old to the new types of national debt, some essential and fundamental changes occur. First, a terminable stock is substituted for an interminable one. Second, an automatic and invulnerable sinking fund takes the place of a sham sinking fund at the mercy of Finance Ministers and House of Commons majorities.

Third, the provision for redemption of debt will have to be definite and invariable, instead of slipping up or down with every annual budget. Fourth, the annual charge for redemption will consequently be heavy—a good deal heavier, perhaps, than anything in our previous experience. Its weight will depend on the load of debt to be liquidated and on the term of years over which the liquidation may be spread.

As to the latter, we can draw no inference from the £350,000,000 loan. Nominally it is to run for not less than ten and not more than thirteen years, but no one supposes that it can be wholly paid off in that time. The bulk of it will have to be renewed, and it is then that the actual period of redemption will be fixed. It may be forty, fifty, or sixty years, according to the financial outlook when the operation is carried out. Though we are all in the dark as to its probable magnitude, it is not difficult to foresee how it will work. It will have to be an adaptation of the process of municipal borrowing, which works so satisfactorily in the financing of local undertakings. The Treasury cannot complain if it is asked to apply to its own capital account the restrictions and safeguards which it has rigorously imposed on the borrowing operations of local authorities. When any of the latter wish to raise a loan for sewage works, highways, buildings, &c., a term is fixed for repayment varying with the durability of the work. The loan is then contracted at a rate which includes an adequate allowance for redemption within the stated period. This analogy could not be exactly followed with a huge national loan. Interest and redemption could however be separately provided for by creating a redemption trust or by some other means which would be beyond the control of the Government of the day. But whatever the method adopted, that part of the annual charge applicable to redemption should be as firmly secured as the interest itself.

CHAPTER XXI

OUR INTRICATE AND PERPLEXING TAXES

THREE years ago, in endeavouring to forecast the probable cost of our next great war, the writer said: "If Great Britain should be bullied into war with any European Power, we may prepare ourselves for a war expenditure of at least a million sterling a day, for war taxation of nearly a million sterling a week, for an addition of three hundred millions to our national debt, and for a possible decade of paper money."[1] This forecast was criticised at the time as alarmist, but it fell far short of the situation we have now to face. Three years ago no one dreamed of twenty millions of men being arrayed against each other in deadly combat. Germany's claim to be able to put five or six million men in the field was not taken seriously. That the House of Commons should ever be asked to vote supplies for a British army of three millions would have been considered a laughable idea.

But these same estimates have not only been submitted to the House of Commons. They have been passed in the lump by the new process of "token votes." No details have been asked for; no proper criticism has been offered. The financial provisions for maintaining this enormous army and a still stronger navy were also run through Parliament with record facility. The leader of the Opposition declared that a dictatorship was the only thing possible in the circumstances. "In a time of great danger like this," he said, "the only method of conducting the business of the country is the method adopted in Rome when the country was in danger. It is to create a dictatorship."

[1] *Modern Wars and War Taxes*, p. 342.

Ministers quite agreed with their principal critic, and took full advantage of their dictatorial powers. The Treasury constituted itself dictator at large. It became the pivot on which our banking, shipping, commercial, and industrial systems revolved. Its taxing power was promptly and boldly exercised. Though only two months before the war broke out between £9,000,000 and £10,000,000 of new taxes had been imposed, increasing their grand total to over £200,000,000, it rose to the occasion, and asked for £325,000,000 more with which to open the campaign. This it did without any estimates, but simply on votes of credit. A few months later (November 16, 1914) it made its first attempt at a war budget. Afterwards it fell back on dummy estimates, and the House gave it blank cheques, or as they are called in parliamentary language, "token votes."

War Budget No. 1 was a provisional forecast framed so as to cover a period of nearly two years—first, the remaining eight months of 1914-15, and next the full year 1915-16. It started with votes of credit amounting to £325,000,000, over which the most vigilant and conscientious House of Commons could at such a crisis exercise only nominal control. Then it imposed a first batch of war taxes estimated to produce £15,500,000 in the fag end of 1914-15, and £65,000,000 in the full year 1915–16. This made £75,000,000 of fresh taxation imposed within a period of six months—May to November, 1914. A fairly heavy burden for even a rich nation to enter into a European war with—a war of life and death for the British Empire.

The first batch of war taxes should be of special interest for us, as it indicates the fiscal policy which the Government proposed to apply to the war. Less than one-third of the total £65,000,000 a year was to be obtained from the Customs and Excise (£20,250,000). The other two-thirds, or £44,750,000, was to be drawn from that reputedly bottomless purse, the income tax. In order to obtain a clear grasp of the financial policy on which the war is being conducted, we have to see what was the fiscal condition of the country when it was called upon, almost at a moment's notice, to enter into this terrific struggle.

The new war taxes have to be compared with the old ones in order to determine how far they are equitable and best suited to the occasion. Then the fiscal burden has to be considered as a whole in order to make sure that it is not too heavy for any class of taxpayers. In the last of the peace budgets (May 4, 1914) the revenue and expenditure for 1914–15 were thus set forth :

ESTIMATED NORMAL REVENUE, 1914–15

Customs and Excise	£75,350,000
Inland Revenue	96,016,000
Total receipts from Taxes	£171,366,000
Post Office services	31,750,000
Crown Lands	530,000
Receipts from Suez Canal Shares and sundry Loans	1,370,000
Miscellaneous	2,130,000
Total receipts from Non-tax Revenue	£35,780,000
Total Revenue	£207,146,000

ESTIMATED NORMAL EXPENDITURE, 1914–15

I.—CONSOLIDATED FUND SERVICES.		
National Debt Services:—		
Interest and Management		£16,741,000
Repayment of Capital		6,759,000
Total National Debt Services		£23,500,000
Road Improvement Fund		1,545,000
Payments to Local Taxation Accounts, &c.		9,885,000
Other Consolidated Fund Services		1,706,000
Total Consolidated Fund Services		£36,636,000
II.—SUPPLY SERVICES.		
Army (including Ordnance Factories)		£28,885,000
Navy		51,550,000
Civil Services	£58,902,000	
Deduct difference between Supplementary Estimates allowed for and those actually presented	17,000	
		58,885.000
Carry forward		£139,320,000

Brought forward, . . .		£139,320,000
Customs and Excise and Inland Revenue Departments . .	£4,821,000	
Deduct Supplementary Estimate not presented	80,000	
		4,741,000
Post Office Services		26,227,000
Total Supply Services		£170,288,000
Total expenditure		£206,924,000

The increases of taxation had, in Hibernian fashion, to begin with reductions. The first shock of the war, and the consequent dislocation of trade, were likely for a time to hurt the revenue. Large allowances had therefore to be made for shrinkage in certain branches. Customs and Excise had to be written down £4,000,000, and Inland Revenue no less than £7,000,000. This, with £2,200,000 off Post Office receipts, made a total of £13,200,000. It was, however, partly offset by £1,870,000 of an increase expected from Miscellaneous. The net shrinkage was estimated at £11,350,000, which reduced the Chancellor's anticipations from £207,146,000 to £195,796,000. Starting from this low level, he calculated on getting £15,500,000 out of the new taxes to make up his loss on the old ones.

Though the new Customs and Excise duties came into operation at once, and the higher income-tax scale at the beginning of December, the Treasury could not count on much immediate benefit from them. Their probable yield in the last four months of the current fiscal year (1914–15) might not do much more than cover the above shrinkages in existing taxes. During this preliminary period—which in former days would have been considered long enough for a decisive campaign—the war would have to be paid for entirely by loans. Such finance was quite at variance with the Gladstonian doctrine, but modern conditions had rendered it inevitable, and whoever understood them aright could easily foresee what actually happened. The Chancellor of the Exchequer had no other course open to him than to start with rapid borrowing. The glut of money which he and the bankers between them had produced in Lombard Street was a

virtual challenge to him to help himself. The following passage, written in 1912, pretty accurately foreshadowed the course now adopted :

"The one thing quite certain about the next war is that the first move would have to be a big war loan. At least six months' supplies for every efficient ship in the navy and for the largest army we could rush into the field would have to be provided. A hundred millions would soon disappear in mobilisation and the first two or three months' operations. While it was being raised and spent, the Chancellor of the Exchequer might be preparing his budget of war taxes. These would, of course, have to be pushed to the brink of confiscation, and that might not take so very long to reach as optimist politicians imagine. How much could be stuck on to an income tax already ranging from 9*d.* to 1*s.* 8*d.* in the pound without risk of crippling the taxpayer ?" [1]

Tea, beer, and income tax were the Chancellor's selected victims. All three of them were already screwed up to a high pitch, but another sharp turn was given to each of the screws. An extra 3*d.* on the lb. was put on tea and an extra 7*s.* 9*d.* per barrel on beer. The income tax underwent an all-round grading up. The estimated results of these operations are tabulated below :

FIRST BATCH OF NEW WAR TAXES, November 17, 1914

Customs and Excise	Estimated Yields, 1915-16.
Tea.—Additional duty of 3*d.* in the lb., making 8*d.* in all	£3,200,000
Beer.—Additional duty of 17*s.* 3*d.* per barrel, making 25*s.* in all	17,600,000
	£20,800,000
Deduct reduction of Licence Duty	550,000
Total Customs and Excise	£20,250,000
Inland Revenue	
Income Tax increases	£38,750,000
Super Tax increases	6,000,000
Total Inland revenue	£44,750,000
Grand total	£65,000,000

[1] *Modern Wars and War Taxes*, pp. 334–5.

The initial batch of our war taxes, when grafted on the last of our peace budgets (May 4, 1914), furnished the first of our war budgets—that of November, 1914. On the expenditure side it contributed the record total of £532,617,000, of which no less than £405,435,000 was directly or indirectly due to the war. For the regular service of the Army there had been already voted £28,885,000, and for the Navy £51,550,000—together £80,435,000. There was now added in the form of credit votes £325,000,000, making a grand total of over 405 millions sterling. To meet these tremendous charges the Chancellor could count on only £211,296,000 of revenue, including four months yield of the war taxes (December to the end of March). He had, therefore, to make good by borrowing £321,321,000. Subjoined are the details of this remarkable war bill, showing, first, the expenditure, then the revenue, and finally the estimated deficit as it was expected to come out at the end of March, 1915 :

ESTIMATED EXPENDITURE, 1914–15 (November 1914)

I.—Consolidated Fund Services

National Debt Services—		
(a) Inside Fixed Debt Charge	£23,500,000	
Less part suspension of New Sinking Fund	2,750,000	
		£20,750,000
(b) Outside Fixed Debt Charge—Interest, &c., on War Debt		3,443,000
Total National Debt Services		£24,193,000
Road Improvement Fund		1,545,000
Payments to Local Taxation Accounts, &c.		9,885,000
Other Consolidated Fund Services		1,706,000
Total Consolidated Fund Services		£37,329,000

II.—Supply Services

On the peace basis of May 4, 1914	£170,288,000
Add—	
Votes of Credit	325,000,000
Total Supply Services	£495,288,000
Total Expenditure	**£532,617,000**

ESTIMATED REVENUE, 1914-15

Customs and Excise		£71,350,000	
Add—Additional Tea Duty .	£950,000		
Additional Beer Duty . .	2,500,000		
	£3,450,000		
Less—Licence Duty . . .	450,000		
		£3,000,000	
			£74,350,000
Inland Revenue		£89,016,000	
Add—Proposed Increase of Income Tax and Super-Tax		12,500,000	
			101,516,000
Total Receipts from Taxes			£175,866,000
Total Receipts from Non-Tax Revenue			35,430,000
Total Estimated Revenue			£211,296,000
Deficit to be made good by borrowing . . .			321,321,000
			£532,617,000

In a revised statement issued by the Treasury on December 21, 1914, some modifications were made on the above figures. The anticipated yield of income tax and super tax was lowered by £1,640,000, and that of the beer duty by £450,000. These reductions produced a revised total of £209,206,000, instead of £211,296,000. On the expenditure side there were no changes, and its total stood finally at £170,288,000 for normal charges, or £495,288,000 including the votes of credit. National taxation was increased at a stroke about 40 per cent. overhead, but the brunt of it fell as usual very unequally as between producer and consumer. The former had 46 per cent. extra levied on his capital, while the latter, thanks to his political pull, had to pay only 26 per cent. more.

In order to bring the financial situation up to date (May 1915) it is only necessary to insert here the estimates of revenue and expenditure for 1915–16, presented to the House of Commons in the Budget of May 4 :

ESTIMATED EXPENDITURE, 1915–16 (May 1915)

I.—Consolidated Fund Services

National Debt Services—		
Inside the Fixed Debt Charge . .	£24,500,000	
Deduct—Proposed suspension of the New Sinking Fund . . .	3,780,000	
		£20,720,000
Outside the Fixed Debt Charge . .	£15,750,000	
Add—Interest and expenses of additional War Debt . . .	14,976,000	
		£30,726,000
Road Improvement Fund		1,431,000
Payments to Local Taxation Accounts, &c. . . .		9,406,000
Other Consolidated Fund Services		1,697,000
Total Consolidated Fund Services . .		£63,980,000

II.—Supply Services

Army (Token Vote)	£15,000	
Navy (Token Vote)	17,000	
Civil Services—		
Old Age Pensions	13,089,000	
Labour Exchanges, Insurance, &c. .	8,683,000	
Other Civil Services (including Public Education)	37,246,000	
		£59,050,000
Customs and Excise and Inland Revenue Departments	£4,788,000	
Post Office Services	26,836,000	
		31,624,000
Total Supply Services		£90,674,000
Vote of Credit already passed . .	£250,000,000	
Add—Further Votes of Credit . . .	728,000,000	
		978,000,000
Total Expenditure		£1,132,654,000

ESTIMATED REVENUE, 1915–16

Receipts from Taxes	£232,600,000	
Add—Proposed increase of Wine Duties	1,500,000	
Add—Proposed increase of Beer Duty .	1,600,000	
Total from Taxes		£235,700,000
Postal Service	£20,600,000	
Telegraph Service	3,100,000	
Telephone Service	6,700,000	
Crown Lands	530,000	
Receipts from Suez Canal Shares and sundry Loans	2,002,000	
Miscellaneous	1,700,000	
Total from Non-Tax Revenue		34,632,000
Total Revenue		£270,332,000
Deficit to be raised by loans		£862,322,000

The reader will note that of the £2.100.000 per day, or £766.500,000 a year, which is being spent on the war, only two insignificant items of £15,000 and £17,000 have been voted by the House of Commons in the regular way. As regards all the rest the Treasury has a perfectly free hand. Need we wonder if there have been sugar deals and schemes—happily still-born—for buying up all the distilleries, breweries, and public-houses in the United Kingdom? If the programme attributed to Mr. Lloyd George by his temperance friends had been carried through, we should have been saddled with a State monopoly of drink far worse than the vodka monopoly, which the Russian Government was glad to escape from on the eve of the war, by boycotting vodka altogether.

The comparatively small proportion of our enormous war expenditure which is to be immediately provided by taxation—barely 10 per cent.—remains almost as it was last year. We may, therefore, consider its distribution over the various classes of taxable subjects in the light of last year's figures :

THE FIRST BATCH OF WAR TAXES

THEIR PERCENTAGES OF INCREASE

	Estimates, 1914-15. June 19, 1914.	Additions November 16, 1914.	Percentage of Additions.
	£	£	
Customs and Excise	75,350,000	20,250,000	26·6
Inland Revenue	96,016,000	44,750,000	46·6
Total Tax Revenue . . .	171,366 000	67,000,000	39·0

The first batch of war taxes was chiefly distinguished by its lack of novelty. Not a single new impost was proposed or the slightest change of fiscal policy. They were all simple additions to existing taxes. There was some readjustment of the income tax scale—that bugbear of statisticians and financial reformers—but the Customs and Excise levies were mere increases. A second noteworthy feature was the very small number of taxable subjects which the Chancellor ventured to attack. Evidently he did not find the resources of a free-trade policy quite so inexhaustible as he had been accustomed to paint them to delighted Radical voters. Tea and beer, already paying 80 per cent. or more on their original cost, and super-income tax already up to 1*s.* 8*d.* in the pound, did not offer very hopeful fields for further gleaning.

The income-tax payer of to-day is in a worse plight than his predecessor of a century ago. Not only is he paying a higher rate in the pound than was ever levied during the Napoleonic war, but the assessment is much more inequitable, the rates are much more intricate and confusing, the methods of collection are far more inquisitorial and arbitrary. Successive recastings and fresh gradations have reduced it to a mass of conundrums which even the experts at Somerset House cannot always solve. The alterations introduced in May, 1914, and again modified in the following November, made a financial apple-pie bed of it. The Treasury had to get tables constructed like tables of logarithms showing the exact amounts payable on every pound of income from £161 up to £100,000.

These logarithmic tables divided income-tax payers, like railway travellers, into three classes. The first class were those who toil not, neither do they spin—in other words, their incomes are entirely unearned. Second-class incomes are partly earned and partly unearned. Third-class incomes are entirely earned. After being thus carefully differentiated, each class of income is subjected to a process of gradation. Then two contrary operations are added at either end. At the top the fiscal edifice is finished off with a super-tax armed with further differentiations and gradations. At the bottom it has a broad fringe of remissions and abatements on account of children, life insurance premiums, &c. Each of these minute distinctions is in itself a puzzle which the taxpayer has to fight out with his local surveyor.

In the Budget of May 4, 1914, which received its final modifications on June 23, little more than a month before it was all knocked to pieces by the outbreak of war, the nominal rates of income tax were for third-class incomes (wholly earned) 9*d*. in the £ up to £1000 a year, 10½*d*. between £1000 and £1500, 1*s*. between £1500 and £2000, 1*s*. 2*d*. between £2000 and £2500, 1*s*. 4*d*. between £2500 and £3000. At £3000 a year super tax came into play, and from this level upwards a second ascending scale was applied to Dives. If his income were exactly £3000 he had to pay an extra 5*d*. in the pound on £500 of it. If it were between £3000 and £4000, he had to pay 7*d*. extra on all over £3000. If it were between £4000 and £5000, he had to pay an extra 9*d*. on all over £4000. If it were between £5000 and £6000, he had to pay 1*s*. 1*d*. extra on all over £5000. If it were between £6000 and £7000, all over £6000 had to pay 1*s*. 3*d*. extra. From £7000 a year upward the super-tax was to be 1*s*. 4*d*. in the £. This exactly doubled the ordinary tax on unearned income which had been originally fixed in May at 1*s*. 4*d*. in the £, but was reduced in June to 1*s*. 3*d*.

Having got the various rates, differentiations, gradations, and abatements stated in their simplest possible form, we can now see what an impenetrable jungle of lawyers' quirks and quibbles our income-tax system has

become. It is a legal mine field where the bewildered taxpayer is liable to be blown up at every turn. Wherever he goes he finds some emissary of Somerset House lying in wait for him. The lover of classical analogies may compare this most unpopular of taxes with the Nessus shirt, which, as soon as it became warm on the body of Hercules, spread poison into all his limbs and caused him excruciating pains. The income-tax collector is the modern Nessus, and the unfortunate capitalist is his Hercules. In times of peace he is hard enough to bear, but in war and other national emergencies, he is at his worst. And the greater the emergency the heavier are the pains and penalties he inflicts.

In laying traps for the rich taxpayer and hunting him down wherever he can be traced, the Treasury has entangled itself in a net of its own making. Fiscal complication was carried to its extreme limit in the much-amended Budget of 1914, with which we allowed ourselves to be launched into a great war. The fiscal year 1914–15 started in a parliamentary muddle, and as it proceeded it plunged into a series of fresh troubles. The Ulster crisis, the financial scare, the war, and finally the gigantic war loans, threw it completely off the rails. It ultimately subdivided itself into three distinct periods, each of which had a separate scheme of taxation.

It must surprise the Treasury itself that any business community can submit quietly to such rapid and erratic changes as our principal taxes underwent between May, 1914, and the end of the fiscal year (April 5, 1915). As for the taxpayers, they simply gave up trying to follow all the variations and vagaries of the income tax. Even professional experts were baffled by the kaleidoscopic transformations of the Budget. If they had been left to themselves without any official logarithms, they could never have steered their way through the chaos of three different classes of income (earned, unearned, and partly both), three successive changes of rates, and a multitude of erratic abatements for babies, military service, &c. Suppose three men with incomes of £400 a year each had met to consider the various amounts of income tax they would have to pay. A's income might be wholly earned,

B's wholly unearned, and C's partly both. They would first have to find out their respective starting-points in the Budget of May, 1914. Then they would have to trace the various changes which were made in the second and third periods of the year. Finally, they would have to consult the Treasury's logarithmic tables of "virtual rates," in order to ascertain how much each of them was being taxed. Below are a few samples of the table :

"VIRTUAL RATES" OF INCOME TAX AT THREE DIFFERENT PERIODS, 1914–16

	All Earned.		Partly Earned and Unearned.		Unearned.	
£200 a year	*s.*	*d.*	*s.*	*d.*	*s.*	*d.*
May–December . .	1	8	2	4	2	4
December–April . .	2	4	3	2	3	2
1915–16	3	6	4	8	4	8
£300 a year						
May–December . .	4	2	5	6	5	6
December–April . .	5	6	7	5	7	5
1915–16	8	4	11	2	11	2
£400 a year						
May–December . .	5	4	7	9	8	4
December–April . .	7	2	10	5	11	2
1915–16	10	8	15	8	16	8
£700 a year						
May–December . .	8	1	11	1	13	5
December–April . .	10	8	14	8	18	0
1915–16	16	2	22	2	27	0
£1000 a year						
May–December . .	9	0	12	0	15	0
December–April . .	12	0	16	0	20	0
1915–16	18	0	24	0	30	0
£3000 a year						
May–December . .	15	0	15	0	15	0
December–April . .	20	0	20	0	20	0
1915–16	30	0	30	0	30	0

INCOME TAX AND SUPER TAX COMBINED

Three Different Periods, 1914–16

	May 1914 to December.			December to April 1915.			1915–16.		
£3000 a year	15·8			21·1			31·7		
	£	s.	d.	£	s.	d.	£	s.	d.
Income Tax	187	11	3	250	1	8	375	2	6
Super Tax	10	8	11	13	18	6	20	17	10
Combined	198	0	2	264	0	2	396	0	4
£5000 a year	18·7			24·9			37·4		
Income Tax	312	10	0	416	13	4	625	0	0
Super Tax	77	1	8	102	15	6	154	3	4
Combined	389	11	8	519	8	10	779	3	4
£10,000 a year . . .	23·9			31·9			47·9		
Income Tax	625	0	0	833	6	8	1,250	0	0
Super Tax	372	18	4	497	4	5	745	16	8
Combined	997	18	4	1,330	11	1	1,995	16	8
£50,000 a year . . .	29·6			39·5			59·2		
Income Tax	3,125	0	0	4,166	13	4	6,250	0	0
Super Tax	3,039	11	8	4,052	15	6	6,079	3	4
Combined	6,164	11	8	8,219	8	10	12,329	3	4
£100,000 a year . . .	30·3			40·4			60·6		
Income Tax	6,250	0	0	8,333	6	8	12,500	0	0
Super Tax	6,372	18	4	8,497	4	5	12,745	16	8
Combined	12,622	18	4	16,830	11	1	25,245	16	8

Stripped of its patriotic halo and of the military excitement surrounding it, an addition of £67,000,000 a year to taxes already onerous is a formidable problem to be up against. One naturally wonders if the Ministers who are

immediately responsible for it, or the parliamentary supporters who follow them through thick and thin, have ever fully realised the magnitude of the financial task which they will have to take in hand as soon as the war is over. The consolidation of the new debt and the creation of an adequate scheme for redeeming it within a reasonable period might well tax the highest financial skill. Its consideration cannot be too soon begun or too earnestly prosecuted. But as yet hardly a thought seems to have been given to it either by the Cabinet or the House of Commons.

Until the ultimate cost of the war can be approximately known, no definite arrangements for its liquidation can be made, but a number of preliminary questions may be discussed. Of these the most vital is the limit of our fiscal endurance—in other words, the extent to which taxation can be carried without doing permanent injury to the main sources of our national wealth. In the opening series of war taxes—the tea and beer duties, and the income tax—we have concrete examples, which can be used as tests. It will hardly require any argument that tea and beer are already penalised to their utmost capacity. The man in the street, who is chiefly affected by them, can see for himself that 80 per cent. duties are about the limit.

But property taxes are a much more difficult problem than tea and beer duties. The limits of their revenue-earning capacity are one of the most controversial questions in modern economics. The farthest advanced of its students are still in the elementary stage. It is not even generally realised that the various branches in which it is fiscally divided—income tax, super tax, death duties, and assessed taxes—are all parts of a common whole. In order to measure the full pressure of the income tax we have to combine the death duties with it, and treat them as a joint levy on the national earnings. It is the same class, as a rule, who enjoy the large incomes and leave large estates behind them. If the death duties in a particular case come entirely out of savings, they are simply income tax under another name, collected at irre-

gular intervals. If they are not wholly paid out of accumulated savings, then they must come wholly or partially out of capital.

It is quite possible to form a rough idea of the combined effect of income tax and estate duties on the individual taxpayer. We have first to assume an average period in which the estate has been enjoyed by the late owner. Twenty years will be a liberal estimate for that purpose. The amount of the estate duty divided by twenty will then give the annual quota. Add that to the income tax for a given year, and we get the total levy on the income. The table on page 302 shows concrete examples of the combination.

It luridly illustrates the effect on unearned income of a war tax of 2*s*. 6*d*. in the £, a super tax of 5*d*. to 1*s*. 4*d*. in the £, and estate duties ranging from 4 up to 20 per cent. These property levies have been estimated to produce in the current financial year (1915–16) the enormous amount of 133 millions sterling, of which one-third is war tax. In the too probable event of further war taxation being required, the question will be how much more could be squeezed out of the class who are already most heavily penalised. That section of the middle class which has to live on unearned incomes of moderate amount is already being deprived of a large portion of its annual interests and dividends. Income tax and death duties combined cut £53 a year off an income of £400, £130 off £800, £340 off £1600, and so on.

The £400 a year man has to sacrifice fully an eighth part of his income in property taxes alone. Out of the remainder he has to pay fully another eighth in customs and excise duties, local rates, &c. Out of the £1600 income one-fifth is directly intercepted either in life or at death. When we get up to the super tax line the deduction increases to one-fourth, and then goes on growing rapidly until at the top notch—£100,000 a year—it becomes one half. There are politicians who would like to see it carried farther still, and would hardly be satisfied with 20*s*. in the pound. But the question here is not what socialist legislators would like. It is how much oftener the twin screws

TABLE SHOWING THE COMBINED EFFECT OF ESTATE DUTIES (REDUCED TO ANNUAL AVERAGES), INCOME TAX, AND SUPER TAX AT PRESENT WAR RATES, 1915–16

(On Unearned Income)

Estate.	Death Duty.	One-Twentieth per annum.	Income at 4 per cent. on Capital.	Income Tax.	Super Tax.			Income and Super Tax Combined.			Estate Duty and Income Tax Combined.		
£	£	£	£	£	£	s.	d.	£	s.	d.	£	s.	d.
5,000	200	10	200	4	...			4	0	0	14	0	0
10,000	500	25	400	28	...			28	0	0	53	0	0
20,000	600	30	800	100	...			100	0	0	130	0	0
40,000	2,800	140	1,600	200	...			200	0	0	340	0	0
60,000	4,800	240	2,400	300	...			300	0	0	540	0	0
80,000	7,200	360	3,200	400	29	4	6	429	4	6	789	4	6
100,000	10,000	500	4,000	500	79	3	4	579	3	4	1,079	3	4
200,000	24,000	1,200	8,000	1,000	479	3	4	1,479	3	4	2,679	3	4
250,000	32,500	1,625	10,000	1,250	745	16	8	1,995	16	8	3,620	16	8
500,000	85,000	4,250	20,000	2,500	2,079	3	4	4,579	3	4	8,829	3	4
1,000,000	200,000	10,000	40,000	5,000	4,745	15	8	9,745	15	8	19,745	15	8
1,250,000	250,000	12,500	50,000	6,250	6,079	3	4	12,329	3	4	24,829	3	4
2,500,000	500,000	25,000	100,000	12,500	12,745	16	8	25,245	16	8	50,245	16	8

of income tax, super tax and estate duty can be turned on unearned income without paralysing it.

If there be any fresh field for property taxes, it will have to be sought for below rather than above the £400 a year line. Hundreds of thousands of incomes well able to bear a moderate income tax have never yet been called upon, though hints have been occasionally thrown out to them. The abatement scheme would also bear reconsideration. In fact, our income-tax system is in urgent need of a general overhaul. That should have been one of our financial preparations for the war, but it is one of the many that were neglected.

CHAPTER XXII

THE DOOM OF THE ONE-MAN BUDGET

THE world war is certain to produce world-wide changes in every country that has been engaged in it. Its ultimate effects will extend far beyond them, and not a single country may altogether escape them. The face of Europe may be completely changed. Doomed monarchies may disappear. Discredited dynasties may have to fight for their lives with the rising forces of socialistic democracy. What Germany may be ten years hence who can guess? How much may be left of the Austrian conglomeration of races and nationalities defies human imagination. Where the remnants of Turkish rule may be finding a last shelter is an interesting but as yet insoluble problem.

The two chief belligerents—Great Britain and Germany—will have a titanic task before them in adjusting themselves to the new conditions. Revolutionary changes may have to be made, not only in their political systems, but in their administrative and financial machinery. The latter, in particular, will have to be thoroughly overhauled. It is a perfect anachronism, whether we judge it by ordinary business standards or by the financial methods of other Governments, or by the duty it owes to the taxpayers, or by the efficiency of the parliamentary supervision exercised over it. The British Budget is the appropriate crown of an out-of-date Treasury, the functions and powers of which are mysteries to the most intelligent taxpayers.

It is only in British finance that the one-man Treasury and the one man Budget survive. In every other country worth counting, the national revenue and expenditure are surrounded by checks and safeguards which we dis-

dain to use. In France, for example, a permanent Finance Committee examines the estimates carefully before they are submitted to the Legislature. It criticises not only their details, but their general principles and the policy on which they are based. When they involve new taxes or other fiscal changes, the Ministerial proposals are discussed from various points of view, and the decision arrived at expresses the average opinion of a body of competent judges. The report of the Finance Committee to the Assembly thus represents reasoned conclusions. It affords a definite basis for further discussion by the Assembly itself. In its ultimate form it is a proper parliamentary scheme. In passing through its various stages, the public who choose to follow its progress can form their own opinions of it, and whether or not it proves successful, it receives a fair start.

A typical British Budget has quite a different history. The preparation of it is entrusted to a single Minister, who is not necessarily a financier, and who may bring to his office the smallest possible amount of financial experience. He receives from the heads of departments their estimates of expenditure for the coming year; at the same time the various revenue-collecting departments say what the yield of taxes and other income is likely to be. If his paper income exceeds his expenditure, he has the honour and pleasure of distributing the surplus among a multitude of rival claimants. On the other hand, if his expenditure exceeds his income, he has to reverse the operation, and distribute the deficit. In other words, he has to pick out certain classes of taxpayers and call upon them to make it good. Next he has to submit to his colleagues in the Cabinet a rough sketch of his proposals, and if they are approved, he finally works them up into a Budget. Throughout this process of fiscal gestation the utmost secrecy is observed. The thought of a single alteration in a Customs or Excise duty getting out before Budget night would scandalise the House of Commons' conscience. All the parliamentary virtue would have gone out of it if it did not come as a surprise.

Comparing this single-handed finance with the com-

mittee system of other countries, it will be seen that it affords much less scope for deliberation and discussion, and much greater scope for error. It is not compatible with a continuous financial policy, or with effective supervision, or with adequate discussion. Every succeeding Chancellor of the Exchequer has his own ideas of national finance; and all of them have a natural ambition to make their mark at the Treasury. Sometimes they are dreamers of dreams, who regard a Budget as an instrument of social reform or class prejudice. The stronger the Minister the weaker will be the control exercised over him either in the Cabinet or the House of Commons. The more stormy the time the freer a hand he will have, and the easier it will be for him to evade criticism or to stultify it. Of this we have had crowning examples in recent years. Since the war began they have culminated in what is practically a financial autocracy. The Chancellor of the Exchequer for the time being is a supreme and almost irresponsible Minister. Of his own free will he invents new taxes and makes new fiscal regulations. Unless they be as intolerable as the recent alcohol taxes the country has perforce to accept them. Under our one-man Budget system it has no alternative. For the House of Commons to reject a Budget, or even a single item in it, might mean the defeat of a Government and a financial deadlock. It cannot be referred back to him as a French budget might be referred back to the revising committee. "Take it or leave it," are the only alternatives.

Some spectacular finance has been performed during the progress of the war, and the performers, official and otherwise, have received for it not merely public applause, but enthusiastic glorification. If we look a little closer into their dramatic exploits, they will be found to consist mainly of two things which are not usually considered sound finance. One is the shouldering of immense and unknown liabilities, like the Treasury guarantee of all current bills accepted previous to August 4, 1914. The other is frequent and persistent boasting about our boundless resources. On the other

hand, the two most essential elements of sound finance have been very little heard of, namely, business management and administrative economy.

Eloquent allusions have been made to silver bullets and "the last million that tells," but there has been no mention made of an equally important—perhaps even more important—question, which of the belligerents is making the millions go farthest. We may be quite certain that it is not Great Britain. It has always been a costly fighter, and even its most expensive record is being eclipsed in the present war. Compared with the grim, silent, and ceaseless thrift of the German war machine, our military expenditure is a rushing torrent that floods the world with British money. Stranger irony still, this wild orgy of spending is being directed by politicians who, up to the eve of the war, were equally loud in their glorification of our national resources for quite another purpose. They wished then to spend them on what they called social reform.

The last of our peace and social reform Budgets was presented to the House of Commons on May 4, 1914. It started on a keynote of prosperity and progress. Not only were the new social reform taxes outrunning the Chancellor's sanguine estimates, but the national savings were growing at an unprecedented rate. In proof of this the testimony of "that very distinguished statistician, Sir George Paish," who soon afterwards joined the Treasury as its "Financial Adviser," was quoted to the effect that "the increase in the national savings since 1909 has reached the prodigious figures of £1,750,000,000." On the following night (May 5) Sir George Paish himself took up the prosperity parable at the National Liberal Club, and elaborated it to a sympathetic assembly of social reformers. He informed them that the £210,000,000 Budget, which had just been launched, was a mere beginning. Next year's expenditure would be still greater, and large additions would follow in the next few years. It was important, therefore, for them, continued Sir George, "to learn if the income of the country would allow them to solve the problems they had to solve."

He assured them they need have no concern on that point, as the national income was growing by hundreds of millions every year. Then he gave them a few stupendous figures which, at first sight, were very impressive, until it was discovered that they had to be accepted entirely on Sir George's personal authority :

"At present," he said, "this income was large and substantial. In 1907 it was £2,000,000,000, and he estimated that last year it amounted to £2,400,000,000. Thus the national expenditure, as revealed by the Budget, bore, in relation to the national income, an increase of rather less than 10 per cent., and, comparing the national expenditure with the income of fifty years ago, he found they bore the same proportions to each other then as they did to-day. Altogether, therefore, he thought they were infinitely better able to bear the national expenditure now than they were in the 'forties.'"

This was the free trade argument of 1903 dressed up to serve another cause. So great is its versatility and so profound the belief of its devotees in its magical power, that three months later it was made to turn a complete somersault. The strongest weapon in the free trade and social reform armoury was, at the outset of the war, ingeniously converted into an irresistible plea for huge war loans and war taxes. A Samaritan Treasury was suddenly converted into a war chest. Precisely the same arguments, or rather the same assertions, are now being used to prove our inexhaustible military resources as have already done duty to establish the omnipotence of free trade and the glorious outlook for social reform :

"Thus," concluded Sir George, "they could look forward in the future to greater increases in the capital fund and income of the nation. The economic condition of the British people at the present time was one of great strength, and the course of events showed conclusively that, as the years passed, it would become even stronger. They might now look forward with confidence, in his opinion, to the time in the not far distant future when the incomes of every one would be over the poverty line, and when even the poorest would be able to participate in the great wealth we were

accumulating from year to year and from generation to generation."

The optimists of the National Liberal Club will do their best to forget the eloquent prophecy which has been so tragically falsified. That, of course, is not their blame, but having been twice woefully deceived as to their power to force on a financial millennium, ought they not to seriously reconsider their fundamental postulate? Are our financial resources so absolutely inexhaustible that we can expose them to any and every risk, either in peace or war? Moreover, is it wise to rush into a world-wide conflict of unforeseeable length and severity with political cries of "Damn the expense"? Hitherto spending departments have always been ready enough to spend without any encouragement from the Treasury. The practical effect of that oft-repeated boast may be that millions which might have been saved will shoot the Niagara of our war expenditure. Never before was the gospel of the silver bullet preached either to our Army or our Navy. They were rather taught to make the best possible use of every bullet, silver as well as lead.

The shibbòleth of our inexhaustible resources with which the Chancellor has made such dramatic play, both in Parliament and on recruiting platforms, is a great deal more dangerous when applied to a world war than when used to promote schemes of socialistic legislation. These schemes, if pushed too far, might break down without vital injury to our economic condition. They would simply have to be stopped or reorganised on a sounder basis, and nobody might be much the worse. But if at the crisis of a great war it should be discovered that we had overestimated our financial strength, the consequence might be irreparable disaster. In such a case it would be a poor defence for the Chancellor of the Exchequer that he had placed too implicit faith in the statistical calculations of his friend Sir George Paish.

It would be a still poorer excuse for the House of Commons for having without challenge, and almost without criticism, allowed such a tremendous issue to

be staked on so nebulous a basis. There are precedents for serious financial failures having resulted from Chancellors of the Exchequer becoming magnetised by popular theorists. Mr. Pitt's historical blunder—his Sinking Fund—was due to his having been captivated by a purely theoretical treatise—Dr. Price's book on *Sinking Funds and Life Annuities.* His attempt to reduce the doctor's calculations to practice soon ended in new loans being raised at 5 or 6 per cent. to pay off old debt bearing $3\frac{1}{2}$ or 4 per cent. interest. How many millions of our existing national debt may be due to that elementary folly having gone on for years unchecked, who can say?

The Sinking Fund of to-day had for several years previous to the war been subjected to the opposite sort of abuse that befell Mr. Pitt's. His was enforced long after it had begun to work the wrong way. Ours has been frequently cut down when it had the most favourable opportunity of working to advantage. When Consols are cheap is surely the best time to buy them. Every pound that could be saved should then have gone into the Sinking Funds, old and new. But in his last peace Budget (May 4, 1914) Mr. Lloyd George had to wipe out the last million of his ten-million sterling deficit by taking it out of the Sinking Fund. In that case his favourite boast that "it is the last million that tells" certainly came true. A new Sinking Fund will have to form part of the new financial era, and a very different fund from any of its predecessors.

In a long series of anomalies which have emerged during the war crisis, it may be observed that finance, which should be one of the first considerations, is liable to drift into the background. In August last, when the Chancellor of the Exchequer was very properly devoting his whole time and attention to saving the City from threatened disaster, his own proper work had to remain in abeyance, and it was not until the month of November that he was able to present even an outline of the financial situation. Had the House of Commons possessed a properly-constituted Budget Committee, they might, while he was busy elsewhere, have been quietly preparing

the ground for him, thereby relieving the great strain he laboured under, and enabling him to attack the problem of war taxes more resolutely than he was able to do in his November forecast or even in his May Budget.

For the first six months of the war our war finance was of a purely provisional and makeshift character. It began on August 6 with a vote of credit by the House of Commons for £100,000,000—itself a proceeding which has been condemned by high parliamentary authority. The Lords of the Treasury issued on August 20 an apologetic Minute acknowledging that votes of credit were a disputable method of meeting the emergency. The Public Accounts Committee had condemned it, and their Lordships concurred generally with that view, but they held this to be a very exceptional case. Paragraph 2 of the Minute lays down an important principle of financial control :

"The financial procedure to be adopted in the case of votes for special emergencies of the kind now in question had from time to time engaged the attention of the Public Accounts Committee and of this Board, and the Committee have expressed the view that in order to secure to the Treasury and to Parliament the greatest amount of information and control with respect to the expenditure which has to be met, procedure should be by way of Supplementary Estimate rather than by vote of credit."

It is nearly forty years since the Lords of the Treasury enunciated the above view. On February 14, 1880, they passed a resolution that : "Wherever practicable, a war not provided for in ordinary estimates should be provided for by Supplementary Estimates for the Army or Navy, as the case may be, and not by a Vote of Credit." It might have been thought that such a clear deliverance by the highest authority left nothing to be done but to obey it. But Mr. Gladstone was still to the fore, and he was a believer in Votes of Credit. When the Penjdeh crisis of 1885 came along he totally ignored the Treasury Minute of 1880 and adopted the course which it condemned. That pillar of sound finance, Sir Michael

Hicks Beach, when he had to face a similar dilemma, did not follow Mr. Gladstone's bad example. In 1900 he honourably complied with the Treasury ruling of 1880, and provided for the whole of the expenditure on the Boer war by means of Supplementary Estimates. This brought the entire financing of the war within the purview of the House of Commons. Whether or not the House was sufficiently vigilant in the exercise of its censorship is another matter. It had full means and opportunity to do its duty.

When the present Government was called upon to face its problem of war finance, it had to choose between the two precedents—Mr. Gladstone's of 1885, and that of Sir Michael Hicks Beach in 1900. It chose the one which the Treasury had condemned, and thus started on a false note. It decided not to submit the details of its war expenditure to the House of Commons, but to ask for a thumping Vote of Credit. On August 6 it got £100,000,000 to begin with, and started in at once to spend it. Not only had it a free hand with regard to proper expenditure on the war, but the vote covered all "expenses arising out of the state of war." This was, financially speaking, a step of the gravest possible character, but the House of Commons sanctioned it offhand in a fit of patriotic enthusiasm.

Ministers seem, however, to have felt that later on, when the serious character of their decision was realised, it might encounter some drastic criticism. To defend themselves in advance, they passed another Treasury resolution intended to stultify the resolution of 1880, which they were deliberately violating. The justificatory clause ran thus :

"On the present occasion their Lordships were confronted with an emergency which must necessarily involve special expenditure (not only under the heads of Army and Navy, but in civil departments also), the amount and scope of which are as yet incapable of estimate or definition. In these circumstances they have found themselves obliged to resort to the precedent last adopted in 1885 of a vote of credit, *and this vote has necessarily been drawn in the widest terms.*"

A world of meaning—and costly meaning it may be—lies in that last half-sentence. It implies that not only was the Government to have a blank cheque for war expenditure, but that it might at its own discretion extend its bounty to any other subject—sugar, for instance—arising out of the State of War. Millions on millions of money are under this elastic arrangement being spent on dummy estimates, which means without any parliamentary control. This, too, in face of an emphatic condemnation of such procedure recorded among the Treasury Minutes of nearly forty years ago. The above-mentioned resolution of February 14, 1880, sets out that :

"A Vote of Credit differs (*e.g.*) from ordinary Army and Navy votes inasmuch as it is taken, not by the Army and Navy Department, but by the Treasury. *The House of Commons, in fact, dispenses for the time with its power of control, and grants a sum of money in gross, and without the usual limitations to the Treasury as being the Central Department of Finance, to which it leaves the responsibility of distributing the money in the manner best calculated to meet the emergency.*"

When that official warning against Votes of Credit was written, they had seldom exceeded £5,000,000. Now they run into hundreds of millions, and corresponding powers of borrowing have been conferred on the Government to provide the money for them. These were, and are, in fact, unlimited. Clause 1 of the War Loan Act, 1914, says :

"Any money required for raising the supply granted to His Majesty for the year ending the thirty-first day of March nineteen hundred and fifteen, may be raised in such manner as the Treasury think fit, and for that purpose they may create and issue any securities by means of which any public loan has been raised or may be raised or such other securities bearing such rate of interest, and subject to such conditions as to repayment, redemption, or otherwise, as they may think fit."

How far may we expect even two millions a day to go in the hands of a virtually irresponsible Government,

armed with unlimited power to borrow and spend at their discretion? What kind of Budgets may we expect when such a system has fully developed and its spending power is in full swing? And what are our taxes likely to be when Votes of Credit, War Loans, Treasury guarantees, and sugar deals all come home to roost? Without questioning for a moment the ability of the British public to bear them to the bitter end, we may safely predict that a very much stronger fiscal system than the present one will be needed to carry us through. Neither our fiscal policy nor our fiscal machinery, and, least of all, our Parliamentary control, will prove equal to the emergency.

For the new burdens which are being piled up on us an entirely different kind of Budget will be needed from the one we have become so painfully familiar with in past years. There will have to be new methods of dealing with the public debt, raising and redeeming loans, levying taxes, voting supplies, controlling expenditure, and conducting Treasury business in general. An important step toward them has already been taken in making the £350,000,000 war loan terminable bonds instead of irredeemable annuities. This is not an entirely new departure, the National War Loan of 1900 having been on similar lines, or rather, we should say that the £350,000,000 loan is on similar lines to the loan of 1900. The latter had a period of ten years (1900–10), while the former may be redeemed either in ten years or thirteen, at the pleasure of the Government.

There is small chance of its being paid off either in 1925 or 1928, but the holders will, at least, have the opportunity to strike a fresh bargain with the Treasury. They cannot be forced to go on indefinitely like the unfortunate holders of Consols. Another advantage they will have is that sound finance will require a substantial redemption fund to be provided. This will not be a parliamentary sinking fund of the will-o'-the-wisp sort that mocked the House of Commons for a century and a half. It will have to be a genuine redemption charge embodied in the loan contract and entrusted to a non-political body, which neither the Legislature nor the Executive can inter-

fere with. Already a good model for it exists in the municipal loans, which are all contracted for fixed periods, and have to carry an annual charge sufficient to cover both interest and redemption within their respective terms.

A crowning proof of the folly of the "one-man Budget" system has been given while these pages were passing through the press. On April 29 the Chancellor of the Exchequer literally flabbergasted the House of Commons by announcing as the long and anxiously waited for decision of the Cabinet on the drink question, that the whisky duty was to be doubled, the wine duties to be quadrupled, all but the lightest of beers prohibited, and all the public-houses in areas producing war material to be taken over by the Government. Could anyone imagine a more universally offensive scheme, or one less likely to have, after due consideration, been recommended by a competent Finance Committee, either of the Lords or the Commons? Could such proposals ever have been even hinted at in the City or in any assembly of business men? They demonstrated the futility of professional politics in matters of business, and, above all, in the conduct of great military operations. They were too extravagant even for the prohibitionists.

CHAPTER XXIII

THE LONDON, PARIS, AND PETROGRAD PARTNERSHIP

MORE sensational finance has been compressed into the past nine months than ever happened before in as many years. Every financial incident, small and great, was sensationalised to such an extent, that all sense of proportion was in danger of being lost. If at the end of the ninth month of the war a crowd of ordinary newspaper readers had been asked what they considered the most important of its financial developments, three-fourths of them would have quoted one or other of the spectacular operations performed in Lombard Street—the Treasury guarantee of current acceptances, or the taking over of the railways, or the arrangement for Stock Exchange loans. But these, however important at the moment, were only temporary expedients. They merely tided the City over a very dangerous crisis, and their value ceased with the return of normal conditions.

If the question were changed to, Which financial development of these nine months was likely to have the most extensive and prolonged influence? a very different answer would have to be given. The best judges might be inclined to give their vote for an event which happened in Paris in the early part of February. It was heralded with a few mysterious paragraphs about a private conference between the Finance Ministers of Great Britain, France, and Russia. While the Conference was sitting the usual amount of intelligent but mistaken anticipation of events took place. When it finished there was the usual rush of interviewers at the three Ministers, to worm out of them a few facts as to the result. Some small personal details were dressed up with a large percentage of conjectures, more or less fantastic. The smallest achievement

deemed worthy of the occasion was a joint Anglo-French-Russian loan for a thousand millions sterling or so.

This spectacular bubble-blowing went on unchecked until February 15, when the Chancellor of the Exchequer gave the House of Commons an official version of what had happened in Paris. It was much more prosaic than the Fleet Street divinations. In fact, it might be said to have gone to the opposite extreme and done bare justice to the occasion. The Chancellor reduced it to a matter-of-fact consultation between the three Finance Ministers as to the best means of meeting their colossal expenditure on the war. Each of them had special difficulties to contend with, and by comparing notes they might be able to help each other. The Ministers, instead of representing three great States, might have been the heads of three international banks engaged in carrying out some huge enterprise which demanded the closest and most confidential co-operation. From this point of view Mr. Lloyd George described the situation clearly and in suitably restrained language. On much smaller occasions he has allowed his Celtic imagination to run away with him, but here it was kept well in hand.

If he had felt quite free to express his whole mind on the subject, he could have roused the House of Commons and the country to a high pitch of enthusiasm over the financial partnership which was thus quietly initiated in the French capital. If it should live up to its future possibilities and fulfil even to a moderate extent the sanguine hopes it has excited, its sequel will prove it to be one of the greatest events of the war. From every point of view—as a means of hastening the war to a satisfactory conclusion, and at the same time restraining its frightful cost; as a consolidation and cementing of the alliance and a promoter of good understanding amongst the Allies; as a concentrator of all their military energies, wherever they can at a given moment be most effectively exerted, it should prove invaluable.

But possibly there may be even greater possibilities

than these to be expected on the return of peace. The war will leave Europe divided into two grand economic groups of states. There will be the German group in the centre, and girt round it will be a ring of Anglo-Saxon, Celtic, and Slavonic races, all more or less anti-German and proportionately favourable to the Allied cause. In peace even more than in war the Allies can be mutually helpful. As producers and consumers they fit into each other. Their markets have a large power of reciprocation. Each of them has something to sell which the others require to buy. All their exports can be profitably distributed within the group, and most of their imports can also be obtained within the group. There is among them a basis for economic co-operation of the most comprehensive character. Between Great Britain, France, and Russia a modified form of Zollverein may be possible, and if so it will carry Mr. Chamberlain's dream of a fiscal millennium farther than he ever contemplated.

The Three Empires[1] have one supreme interest in common—to destroy German militarism and to take effective precautions against its revival. The simplest and most effective safeguard will be a combined boycott of German trade and finance. Super-taxes on German goods in all three Empires may be the most practicable form of levying a war indemnity. If so, a joint policy will have to be pursued regarding them. In the financial arena still closer and more advantageous co-operation will be possible. Russia before the war was rapidly becoming one of the finest fields now open to British and French capital. After the war it will be tenfold more accessible. It offers practically boundless scope for all the principal forms of present-day enterprise—mining, lumbering, grain-growing, manufacturing, railroading, banking, and finance.

Russia is a vast storehouse of the sort of wealth that

[1] Critical readers may take exception to the term "Three Empires" on the ground that France is not an Empire, but a Republic. There is, however, nothing to prevent a Republic having all the grand qualities generally associated with Empires. In the conduct of the war France has proved herself as imperial as either of her allies.

is most needed to-day, and will be still more needed to-morrow. Two years ago, when it was much less known or appreciated than it is to-day, the writer called attention to its untapped economic resources, and compared them favourably with the less solid national wealth of Great Britain and France. The comparison would bear reprinting, but we have room for only a few extracts :

"For an illustration of solid as distinguished from statistical wealth, we need only turn to one of the great producing countries of the world—Canada, Russia, or Argentina. We may take Russia for choice, as that country is now undergoing a somewhat remarkable development which is fully described in the British consular reports. The chief cause of this was not, as in certain other countries, a great multiplication of official salaries and a consequent increase in income-tax assessments. It was a splendid harvest—that of 1909. As soon as the record wheat crop of 1909 was assured, the wheels of industry and commerce began to move as they had not done for many a day.

"The annual exports rose from £105,300,000 to £152,900,000. The foreign exchanges, which are generally against Russia, turned sharply in its favour, and gold rushed in from abroad. During the year the Imperial Bank gained over 16 millions sterling, its stock of gold having advanced from £133,600,000 to £149,700,000. Concurrently there was a marked inflow of deposits into the private commercial banks, especially in the grain-growing districts. This enabled them to increase their discounts and advances, and to grant more favourable rates in both cases. Between July 1908 and July 1909 the bank deposits advanced from £105,700,000 to £124,900,000—nearly 20 millions sterling, or at the rate of 18 per cent. for the year, exceeding the estimates by seven millions sterling." [1]

According to the consular reports from which the above remarkable facts were derived, the most satisfactory features of the year, from a financial point of view, were the strengthening of the national fund of capital and the easier conditions of credit. The increase in the gold lying at the State Bank, besides representing larger

[1] *Modern Wars and War Taxes*, p. 154.

deposits by private banks and individuals, and being thus an indication of a general abundance of money, enabled the State Bank to enlarge the facilities which it affords to industry by its lending operations. Such was the marvellous effect on the whole economic situation in Russia which can be brought about by a single good harvest.

Having given the reader a faint idea of the economic strength of Russia, the least known or understood member of the Three-Empire partnership, we may proceed to illustrate the volume of trade already passing between the partners. It will very probably surprise him, but it is only a mere beginning of what may be. The first and second of the subjoined tables exhibit the imports and exports of the Three Empires among themselves. The third shows their exports to and their imports from Germany, while the fourth gives the corresponding figures for Austria-Hungary. Supplementary tables give the balances for or against each country in relation to each of the others :

TRADE MOVEMENTS BETWEEN THE UNITED KINGDOM, FRANCE, AND RUSSIA, 1912–13

	Imports.	Exports.	Total.
United Kingdom and France	£55,323,000	£41,623,000	£96,946,000
United Kingdom and Russia	39,745,000	27,694,000	67,439,000
France and the United Kingdom	41,935,000	54,466,000	96,401,000
France and Russia .	17,288,000	2,448,000	19,736,000
Russia and the United Kingdom	14,235,000	32,781,000	47,016,000
Russia and France .	5,634,000	9,815,000	15,449,000
	£174,160,000	£168,827,000	£342,987,000

TRADE MOVEMENTS BETWEEN THE UNITED KINGDOM, FRANCE, AND RUSSIA, 1912–13—*continued.*

Balances For or Against each Country

	For.	Against.	Net Balance Against.
The United Kingdom with France . . .	...	£13,700,000	
The United Kingdom with Russia . . .	...	12,051,000	£25,751,000
France with the United Kingdom .	£12,531,000	...	
France with Russia .	...	13,840,000	1,309,000
Russia with the United Kingdom .	18,546,000	...	
Russia with France .	4,181,000	...	22,727,000[1]

RECIPROCAL TRADE OF THE UNITED KINGDOM, FRANCE, AND RUSSIA, 1912–13

British exports to France, 1913 . . .	£41,623,000	
British exports to Russia, 1913 . . .	27,694,000	
		£69,317,000
French exports to the United Kingdom, 1912	£54,466,000	
French exports to Russia, 1912 . . .	2,448,000	
		56,914,000
Russian exports to the United Kingdom, 1912	£32,781,000	
Russian exports to France, 1912 . . .	9,815,000	
		42,596,000
Grand total of exports		£168,827,000

[1] In favour of Russia.

RECIPROCAL TRADE OF THE UNITED KINGDOM, FRANCE, AND RUSSIA, 1912 13—*continued.*

British imports from France, 1913 . .	£55,323,000	
British imports from Russia, 1913 . .	39,745,000	
		£95,068,000
French imports from the United Kingdom, 1912	£41,935,000	
French imports from Russia, 1912 . .	17,288,000	
		59,223,000
Russian imports from the United Kingdom, 1912	£14,235,000	
Russian imports from France, 1912 . .	5,634,000	
		19,869,000
Grand total of Imports		£174,160,000

In order to emphasize the significance of these instructive comparisons, the corresponding figures for the two "Central Empires," as Germany and Austria pompously style themselves, may be added :

GERMAN TRADE WITH THE UNITED KINGDOM, FRANCE, AND RUSSIA, 1912–13

	Imports From.	Exports To.	Total.
The United Kingdom	£42,130,000	£58,055,000	£100,185,000
France	27,610,000	34,470,000	62,080,000
Russia	78,240,000	38,160,000	116,400,000
	£147,980,000	£130,685,000	£278,665,000

TRADE BALANCES FOR OR AGAINST GERMANY.

	For.	Against.	Net Balance for Germany.
Germany with the United Kingdom.	£15,925,000	...	£15,925,000
Germany with France	6,860,000	...	6,860,000
Germany with Russia	...	£40,080,000	40,080,000 [1]
	£22,785,000	£40,080,000	£17,295,000 [1]

[1] Against Germany.

AUSTRO-HUNGARIAN TRADE WITH THE UNITED KINGDOM, FRANCE, AND RUSSIA, 1912-13

	Imports From.	Exports To.	Total.
The United Kingdom	£10,223,000	£10,724,000	£20,947,000
France	4,991,000	3,511,000	8,502,000
Russia	9,533,000	3,805,000	13,338,000
	£24,747,000	£18,040,000	£42,787,000
Germany	£58,566,000	£50,537,000	£109,203,000

TRADE BALANCES FOR OR AGAINST AUSTRO-HUNGARY

	For.	Against.	Net Balance against Austro-Hungary.
Austro-Hungary with the United Kingdom	£501,000	...	£501,000 [1]
France	...	£1,480,000	1,480,000
Russia	...	5,728,000	5,728,000
	£501,000	£7,208,000	£6,707,000
Germany	...	£8,029,000	£8,029,000

The three partners trade with each other to the extent of 343 millions sterling per annum, and their trade with Germany and Austria is, oddly enough, of similar volume, though, of course, very different in composition. With Germany they exchanged goods in 1912–13 to the estimated value of 278 millions sterling, while the Austrian aggregate was nearly 43 millions. The combined German and Austrian trade with the Three Empires thus amounts to 321 millions as against 343 millions of Anglo-French-

[1] For Austro-Hungary.

Russian trade. The balances arising out of this annual movement have a special interest at the present time. They indicate the normal tendency of their foreign exchanges in so far as these are dependent on commercial as distinguished from financial factors.

Russia being a large producer of foodstuffs, minerals, and raw materials generally, while she is as yet a comparatively small consumer of foreign manufactures, has, as a rule, a favourable trade balance. In the year to which the above figures refer (1912–13) her exports to the United Kingdom exceeded her imports by $18\frac{1}{2}$ millions sterling. Her exports, too, exceeded her imports from France by fully 4 millions. In the Three-Empire trade as a whole, she came out £22,727,000 to the good. With Germany she did even better, the balance in her favour reaching the substantial sum of 40 millions sterling. Even with Austria-Hungary her balance was generally on the right side. In 1912-13 her exports to the Dual Monarchy exceeded her imports by $5\frac{3}{4}$ millions sterling.

Adding all these favourable trade balances together, we obtain the following grand total:

With the United Kingdom	£18,546,000
„ France	4,181,000
„ Germany	40,080,000
„ Austro-Hungary	5,728,000
	£68,535,000

The question how Russia collects these annual balances as they fall due to her by her four principal customers, sends us in search first of all of her metallic money balances—in other words, her gold and silver movements. Unfortunately, these are not available, as the official returns ceased to be published in 1909. Apparently the Russian Government now prefer to treat them as banking and financial, rather than as commercial movements. They are conducted chiefly by the Imperial Bank of Russia for account of the Government, and any clue there may be to them is more likely to be found in the Imperial Bank returns than in those of the Custom

House. One essential fact is well known, however—that the tendency of late years has been for the Imperial Bank to accumulate gold and to systematically strengthen its gold reserves.

Thus Russia entered on the war in a doubly strong position—first, with a huge gold reserve, and secondly, with large trade balances in her favour. But the closing of her Baltic and Black Sea ports nullified for the time being both these advantages. It was at the same time a great military misfortune. It compelled her to import most of the war supplies she had to obtain from abroad, by a very roundabout road, *via* Archangel and thence over several hundred miles of railway to the fighting line. In a previous chapter [1] it has been explained how completely Russia's foreign exchanges were thrown out of gear by her military isolation from the outer world. Her great natural resources were bottled up, her gold could only be exported at great cost and considerable risk. Meanwhile enormous debts had to be incurred for munitions of war, and heavy financial obligations had to be met in London and Paris.

Very probably the principal, or at least the most urgent, object of the Paris Conference was to devise measures for tiding the Russian Treasury over these various difficulties. The more clearly we appreciate them, the greater meaning we are likely to find in the Chancellor's vivid description of the Russian situation :

"Russia is in a different position from either Britain or France. She is a prodigiously rich country in natural resources, about the richest in the world in natural resources—food, raw material; she produces practically every commodity. She has a great and growing population, a virile and industrious people. Her resources are overflowing, and she has laboured to develop them in abundance. By a stroke of the pen Russia has since the war began enormously increased her resources by suppressing the sale of all alcoholic liquors. It can hardly be realised that by that means alone she has increased the productivity of her labour by something between

[1] Chapter III, "Foreign Exchanges Blocked."

30 and 50 per cent., just as if she had added millions of labourers to the labour reserve of Russia, without even increasing the expense of maintaining them. Whatever the devastation of the country may be, Russia has more than anticipated its wastage by that great act of national heroism and sacrifice. The great difficulty with Russia is that although she has great natural resources she has not yet been able to command the capital within her own dominions to develop those resources, even during a time of peace. In times of war she has additional difficulties. She cannot sell her commodities, for several reasons. One is that a good deal of what she depends upon for raising capital abroad will be absorbed by the exigencies of war in her own country. Beyond that, the yield of minerals will not be quite as great, because the labour has been absorbed in her armies. There is not the same access to her markets. She has difficulty in exporting her goods and, in addition to that, her purchases are enormously increased in consequence of the war. Russia, therefore, has special difficulty in financing purchases for the war. These were some of the difficulties with which we were confronted."

The war problems peculiar to France were not of the same magnitude as Russia's, but still they required careful handling. They were more financial than commercial, and not the least of them were fiscal. France in her trade with the Allies keeps pretty nearly on an even keel. A Russian balance of nearly 14 millions sterling against her is offset by a British balance of 12½ millions in her favour. Franco-German trade in 1912–13 resulted in a balance of £6,860,000 in favour of Germany, but from that may be deducted £1,480,000 of a French balance against Austria-Hungary. Under peace conditions the trade movements of the Central and the Western groups of Powers are fairly well balanced. They seldom show differences either way which should be difficult to settle. Consequently violent fluctuations in their exchanges should be rare.

In comparison with the volume of international trade indicated in the above tables, the interchange of specie and bullion may be thought surprisingly small. By far the largest movement takes place in the United Kingdom,

namely, $69\frac{1}{2}$ millions sterling in and $64\frac{3}{4}$ millions out. All that we retained in 1912 and added to our own stock of gold was about $4\frac{1}{2}$ millions sterling. Out of a much smaller importation than ours France contrived to retain twice as much as we did. She received $23\frac{1}{2}$ millions sterling and exported $15\frac{1}{4}$ millions—surplus retained, £8,260,000. Germany got 16 millions sterling from abroad, and kept all but 7 millions of it. Net gain, £9,071,000. Austria had quite a contrary experience. In 1912 she lost nearly $7\frac{1}{2}$ millions sterling and got back only £826,000. How much of the $6\frac{1}{2}$ millions went to Berlin?

SPECIE AND BULLION MOVEMENTS, 1912

	Imports.	Exports.	Excess of Imports.
The United Kingdom .	£69,467,000	£64,871,000	£4,596,000
France	23,522,000	15,262,000	8,260,000
Russia	...[1]	...[1]	...[1]
	£92,989,000	£80,133,000	£12,856,000
Germany . . .	£16,097,000	£7,026,000	£9,071,000
Austria-Hungary . .	826,000	7,434,000	6,608,000[2]
	£16,923,000	£14,460,000	£2,463,000

Mr. Lloyd George rightly described the special difficulties of France as money-market difficulties. The war had caught her in a very awkward plight as regards her national finances, but a wave of ardent patriotism had swept aside all minor troubles. The whole wealth and strength of the nation had been placed at the service of the State, and the tribute paid by the Chancellor to her grim self-sacrifice was not a whit too strong:

"I am not sure that we quite realise the strain put upon that gallant country up to the present moment. For the

[1] No return since 1909. [2] Excess of exports.

moment she bears far and away the greatest strain of the war in proportion to her resources. She has the largest proportion of her men under arms. The enemy are in occupation of part of her richest territory. They are within 55 miles of her capital, exactly as if we had a huge German army at Oxford. It is only a few months since the bankers of Paris could hear the sound of the enemy's guns from their counting-houses, and some of them can hear the same sound now from their country houses. Under those circumstances the money markets of the country are not at their very best. That has been one of the difficulties with which France has been confronted in raising huge sums of money to carry on the war and helping to finance the Allied States. There is a wonderful confidence, notwithstanding these facts, possessing the whole nation. Nothing strikes the visitor to Paris more than that. There is a calm and serene confidence, which is supposed to be incompatible with the temperament of the Celt by those who do not know him. There is a general assurance that the Germans have lost their time, and that now the German armies have as remote a chance of crushing France as they have of overrunning the planet Mars. That is the feeling which pervades every class of the community, and that is reflected in the money markets there. The difficulties of France in that respect are passing away, and the arrangement that has now been made in France for the purpose of raising sums of money to promote military purposes, I have not the faintest doubt, will be crowned with the completest success."

Last of all, our own special difficulties were enumerated. The sum and substance of them was gigantic expenditure all round. One could almost wish that Mr. Lloyd George had not rolled off the items with so much gusto as if they were things to be proud of. A day will come when we may look back upon them with very different feelings. But the House of Commons never winced when he told it that:

"Two-thirds of our food supplies are purchased from abroad. Enormous quantities of raw materials for our manufacturers and our industries are largely absorbed in war equipment, and our ships in war transport. We cannot pay

as usual in exports and freights and services. Our savings for the moment are not what they would be in peace. We cannot therefore pay for our imports in that way. We have to purchase abroad, and we have to increase our purchases abroad for war purposes, and, in addition to that, we have to create enormous credits to enable other countries to do the same thing. The balance is therefore heavily against us for the first time. There is no danger, but in a conference of the kind we had in Paris I could not overlook the fact that it was necessary for us to exercise great vigilance in regard to our gold. Those are the complex problems which we had to adjust and determine how we could most effectively mobilise the financial resources of the Allies, so as to be the greatest help to the common cause."

The herculean task to which the three Financial Ministers have courageously addressed themselves could not have been more graphically described. An equally clear account of the methods of co-operation which were agreed upon at the Conference would have been still more welcome. On this point, however, we have to be content with parliamentary rhetoric. It may have been all we could expect in the first stage of so gigantic a combination, but a good deal more will be needed as the operation develops. Meanwhile, we may ponder over Mr. Lloyd George's eloquent panegyric on the new brotherhood in arms and in finance :

"An alliance in a great war to be effective needs that each country must bring all its resources to the common stock. An alliance for war cannot be conducted on limited liability principles. If one country in the alliance has for the moment more trained and armed men ready with guns, rifles, and ammunition than another, she must bring them all up against the common enemy without regard to the fact that the others cannot for the moment make a similar contribution, but it is equally true that the same principle applies to the country with the larger navy or the country with greater resources of capital and credit. They must be made available for the purposes of the alliance. That is the principle which the Conference of Paris determined to represent to the respective Governments—the mobilisation of their financial resources for the war."

In fact, the mobilisation had already begun. The real work of the Conference was to organise and consolidate various schemes of mutual help already in operation. By means of advances from the British Treasury amounting to £32,000,000 and a gold shipment of £8,000,000 from Petrograd to London, Russia had now a credit of £40,000,000 to draw upon for her foreign purchases. She had also been assured of further assistance as required by creating a special market for her Treasury bills. She was told, in short, that "she need not hesitate for a moment in giving her orders for any purchases necessary for the war for fear of experiencing any difficulty in raising money to pay for them"—another bold stroke, characteristic of its author, but at the same time safer than it looked. The locked-up wheat and other staple exports of Russia formed ample security for all the millions likely to be needed to make it good. The opening up of the Black Sea would soon clear off a whole mountain of such liabilities.

The rapidity with which the attack on the Dardanelles followed the Paris Conference leaves little doubt that they were parts of the same programme. But the sequel will not be complete until both the Baltic and the Black Sea are thrown open and Russia has a clear outlet to the North Sea, as well as to the Mediterranean. It is a pretty piece of historical irony that British guns should have to play a leading part in both these acts of liberation. But history seems to delight in confounding statesmen and diplomatists. British foreign policy in 1915 is turning upside down all its legends and traditions of the Crimean war period. The Paris Conference of 1915 nullifies nearly everything that was so laboriously arranged by the Paris Conference of 1856. The new adjustment promises to be a great improvement on the one it is superseding. It certainly seems to be a more natural and congenial grouping of the European Powers than any other that has yet been tried. Russia brings to it material resources exceeding even those of the United States. Great Britain and France add to them the incomparable strength of their world-wide credit and their industrial

wealth. The three partners have only to maintain the good understanding which brotherhood in arms has created amongst them in order to save Europe for a century to come from a repetition of the horrors of 1914–15. With the Dardanelles and the Kiel Canal converted into highways of commerce pure and simple, the world may again rest in peace. Nothing less will expiate the crimes of German militarism.

CHAPTER XXIV

THE PERILS OF A PATCHED-UP PEACE

Though the end of the war is not yet in sight, some simple and many designing people are already favouring the world with their notions of an ideal peace. Doubtless, the Allied Governments have already some ideas at the back of their heads about the peace conditions which it will be necessary to impose on the defeated belligerents. So far as these may concern the future of Europe at large, they will require prolonged deliberation and negotiation. No individual Ally has the right to say beforehand what they should be. But there is another set of consequences affecting ourselves separately, as regards which we cannot look too far ahead. They portend revolutionary changes in our method of government, legislation, and administration.

It would be foolish to imagine that after such an upheaval as the entire social, industrial, and political fabric of the nation has undergone we can after the war settle down again in the old grooves. Our fiscal machinery will have a crushing burden laid upon it, and in order to avert a collapse its weak points will have to be strengthened. Not unlikely some vital parts of it—the income tax, for example—will have to be recast. That is a contingency to be kept in mind when we are considering the peace situation likely to emerge from the war. Another is the probability of important changes and readjustments having to be made in our financial organisation. A third is the almost certain prospect of some vital parts of our commercial policy having to be reconsidered. The problem of the aniline-dye industry remains unsolved, and the official solution of it which now holds the field commands neither respect nor confidence.

Nowadays, Treaties of Commerce invariably accompany Treaties of Peace, and are sometimes the most valuable part of them. When Bismarck dictated terms to France in 1871, he paid special attention to the future commercial relations between the two countries. Not only did he stipulate for "most favoured nation treatment" of German imports into France, but he insisted on the most minute regulations as to through trade, custom-house formalities, and the mutual treatment of each other's subjects. This time, we hope, Germany will find that the boot is on the other leg. It will not be a question of how much, but of how little, favoured nation treatment she is to receive. Anyhow, that will all have to be thought out beforehand, otherwise as serious blunders may be committed in the peace negotiations, as have been perpetrated in the conduct of the war.

These are a few examples of the pitfalls which await us when the transition takes place from war to peace. Already they can be more or less clearly foreseen, and it is high time to consider how they are to be avoided. Platform perorations about breaking up Prussian militarism and saving Europe from the terror of Prussian hegemony have had their day. It is now time to get down to business, and to ask ourselves how Prussian militarism is to be prevented from rising again and menacing Europe anew. Though it would be premature to discuss the military safeguards and guarantees which may be deemed necessary, the commercial safeguards are matters of business. As to them, we have a free hand, and all classes of the community have a direct personal interest in them.

When the war is over we shall soon discover what it has cost us in men, money, and materials. It will then be a thing of the past—a proud but ghastly memory. On the other hand, the peace will be a thing of the future. Its terms will regulate the relations of the European States, large and small, for years, and possibly for generations to come. Their practical value to us, as a nation, will depend on two conditions—first, the effective conclusion of the war; second, the skill with which the

treaty of peace is negotiated. This, again, will depend on the ability of our negotiators and the thoroughness with which our case is prepared beforehand. We may make up our minds for its being as usual a very self-denying and altruistic case. "Love your enemies" is only too likely to be its keynote. Our plenipotentiaries may leave the diplomatic table almost as empty-handed as their predecessors left the Congress of Vienna in 1815. Of that performance Napoleon said to O'Meara, "So silly a treaty as that made by your Ministers for their own country was never known before. You give up everything, and gain nothing."

This time we may be thankful if we do not incur a still larger share of Napoleon's contempt. There is danger of even greater and more costly mistakes than were committed at the close of our Napoleonic conflict. That war had, among many faults, one exceptional merit. It was fought to a finish, and consequently Europe had forty years of almost unbroken peace. There is much greater reason why to-day's war should also be fought to a finish. A long spell of rest and retrenchment will be absolutely necessary for subsequent recuperation. It may be said of Europe as a whole, that only the wisest government and the severest economy will save it from general bankruptcy. If peace is to be only the prelude to a new era of bloated armaments, no country in the world will be able to stand it for many years. This is the alternative offered to us by the sentimentalists who implore us "not to humiliate Germany."

If Germany is not "humiliated" to the extent of reducing her naval and military power to such limits that she will no longer be a continual menace to her neighbours, Europe will be "humiliated" by having to fight this war all over again within twenty or thirty years. If she should be left free to resume all her unfair and unscrupulous methods of commercial competition, she will probably be the first to recover from the universal ruin in which she has plunged a large part of the civilised world. Much as she has lost in the terrific struggle, she still retains all her unrivalled power of organising industry and push-

ing business. Far from having deteriorated, it will have been sharpened by the desperate expedients to which she has been driven in feeding her sixty-five millions of people and at the same time raising three or four millions sterling a day for her army. Frightfully as her war plans have miscarried, there has been no lack of energy or determination in their execution, and it is human energy that tells in the long run. Human brains may go wrong and come right again. Huge mistakes may be made and corrected; even national catastrophes may be surmounted so long as the national energy survives. This is one of the most striking lessons of military history—Prussian history in particular. Frederick the Great was at his best when, like the Kaiser, he had his back to the wall. From the ashes of Jena arose a new Prussia, and at the crisis of Bismarck's career it was a toss up with him between the scaffold and Walhalla.

For British taxpayers the nature of the peace with which the war may be concluded is almost as important as the war itself. Take the first example we may have to deal with—the war loans. These will be affected in various ways by the peace conditions. A good business arrangement with Germany will enhance their credit and lighten the burden they impose on the country. On the contrary, a bad business arrangement with Germany will weaken their credit and increase the burden they impose on the country. There may be millions sterling a year of difference in their annual cost, according to the favourable or unfavourable terms of peace. The same cause may accelerate or protract their liquidation. It may have even greater effect on the chief branches of our expenditure. Our Army and Navy estimates will have to be regulated, as before, by those of Germany and Austria.

The probable temper of the taxpayers at the close of the war offers a further illustration of the perils of a disappointing peace. Hitherto their patriotic zeal for a righteous cause has made them tolerant of hardships, heavy taxes, and official blundering. But when the patriotic fit cools off, and the nation gets down again to hard-pan, the Chancellor of the Exchequer may have

some bad quarters of an hour in the House of Commons, and still harder ones outside. He might even have a mild recrudescence of the popular revolt against the income tax, which was provoked by the first peace Budget that followed the battle of Waterloo. The Tory Government of that day tried to carry on the greater part of the war taxes for another year, but the refusal of the nation was so prompt and resolute that the House of Commons had to yield to it and repeal the income tax forthwith.

One of the most significant features of military history is the inconclusive character both of wars and of treaties of peace. The wars are seldom fought to a decisive issue, and the treaties are too often creatures of compromise and cunning diplomacy. If these errors are not to be repeated on a gigantic scale on the present occasion, it is high time that level-headed public men began to study the subject in the light of history. The great wars of the modern world, especially those of the past century, should be examined one by one with these three questions in mind—What did it definitely settle? How long did the settlement last? In what condition, economic and financial, did it leave the belligerents?

On a similar principle the historical treaties of peace might be opportunely investigated in order to discover their defects and the causes of the disappointing results which so frequently followed them. In such an inquiry one outstanding example will be sure to challenge attention. The peace of 1815 was concluded in circumstances so like, in many respects, to our own, that much may be learned from an impartial comparison of the two. Fortunately for us, there are also important differences between them which count greatly in our favour. The Government of the present day have no rabid disloyalists thwarting them at every turn, as Pitt was thwarted by Fox and his Jacobin Whigs. The parliamentary Opposition of to-day is to the full as loyal and patriotic as the Ministerialists themselves. The main obstacles to an effective conclusion of the war are this time not in the House of Lords or the House of Commons, but in our churches and public schools.

In 1815 the pacifists and sentimentalists were still higher up than deans, canons, and headmasters, consequently they had greater opportunities of doing mischief. It is bad enough to have our pastors and masters lecturing us about loving treatment for pirates and murderers, but it was worse for the diplomatists of a century ago to have a Czar of Russia preaching an impossible millennium among the ruins of the Napoleonic empire. According to Miss Martineau, whilst the destinies of Europe were being settled amidst a conflict of jarring interests, the Emperor Alexander amused himself in composing, with the assistance of his "white-robed innocence" Madame Krudener, the declaration of the Holy Alliance. The founders of the Holy Alliance went even farther than our own "love your enemy" preachers. They imagined that henceforth the whole mundane world could be conducted in a spirit of Christian charity. Considering who they were—the Emperor of Russia, the Emperor of Austria, and the King of Prussia—and what they afterwards became, the precedent they set is not encouraging.

On September 26, 1815, these three potentates signed in Paris a convention of which the following was the chief clause :

"They solemnly declare that the present act has no other object than to declare in the face of the whole world their fixed resolution, both in the administration of their respective States and in their political relations with every other Government, to take for their sole guide the precepts of the holy religion of our Saviour ; namely, the precepts of justice, Christian charity, and peace, which far from being applicable only to private concerns, must have an immediate influence on the councils of princes and guide all their steps as being the only means of consolidating human institutions and remedying their imperfections."

Millions of men are alive to-day who wish that the pious vows of these three monarchs could have been fulfilled both in letter and in spirit. But everybody knows how differently it all turned out. In a few years the Holy Alliance had become a byword throughout Europe for

despotism, intolerance, and political blindness. Could much else be expected from the "love your enemy" movement of our own day? At all events, the statesmen of 1815, little as they are thought of nowadays, were not taken in by the Scriptural professions of the Holy Alliance:

"The mystical doctrines of political perfectibility had few disciples, although the enthusiastic Emperor laboured unremittingly for converts. Metternich slily laughed and handed it to his master to sign. Wellington coldly bowed, and said that the English Parliament would require something more precise. The peace of Europe was settled as every former peace had been settled, upon a struggle on what the respective Powers thought most conducive to their own aggrandisement."[1]

The Iron Duke's comment on the manifesto of the Holy Alliance may be used once more as a practical reply to Dr. Lyttelton and his associates. "The English Parliament will require something more precise." And a still more pertinent retort may be added: "If you are always to be loving your enemies, what is to become of your friends?" Even the three monarchs, who in a fit of spiritual exaltation initiated this millennial policy, were not foolish enough to put much practical trust in it. They did not expect that it would keep Napoleon safely shut up in St. Helena, or that it would prevent a fresh outbreak of revolutionary fever in France. Before they signed the Holy Alliance they had already entered into a more practical kind of convention—the Treaty of Chaumont. To this there were four parties, Great Britain being the fourth. It was not limited to the attainment of peace, but provided for its maintenance as well. As a further object it undertook—"should the Almighty bless their pacific intentions, to fix the means of maintaining against every attempt the order of things which shall have been the happy consequence of their efforts." To this end each of the four Powers agreed to keep in the

[1] Martineau's *History of the Peace*, vol. i. p. 3.

field 150,000 effective men. In addition, Great Britain engaged to furnish a subsidy of £5,000,000 for the service of the current year (1814).

There is a moral here not only for the "Hymn of Love *versus* the Hymn of Hate" party, but also for the financial optimists higher up, who have been counting on vast military economies to follow the war. Though France was, in modern Ministerial slang, "beaten to her knees," no risks were taken as to her getting up again inconveniently soon. Besides, the Allies had still to divide the spoils, and that operation required nearly a year to complete. The Congress of Vienna did not finish its work until a few days before the battle of Waterloo. In the same week the Chancellor of the Exchequer asked Parliament for a vote of ninety millions sterling for the supplies of the current year. Of this he proposed to raise £36,000,000 by loans, and the balance by taxation. Thus, the first year of peace was going to be almost as hard on the tax-payers as the costliest year of the war had been. But the worm turned at last, and in vain did Lord Castlereagh deplore "the ignorant impatience of the pressure of taxation," which was about to break out into open revolt.

This is another precedent of 1815 which is going to have a new interest for us when the financial transition from war to peace takes place. Parliament had been in a state of suspended animation—in other words prorogued—for nearly seven months (July 11, 1815, to February 1, 1816). When it met again, one of the first announcements made to it was that the income and property tax would be continued on the modified scale of 5 per cent.—a very moderate burden compared with the minimum, 12½ per cent., which is now being levied. But anything short of complete repeal would have provoked popular resentment. Pitt had introduced the income tax as a war tax. He and his successors at the Treasury had repeatedly referred to it as a war tax. Now that peace had returned, the people were determined to be rid of it. And get rid of it they did for the next quarter of a century.

There may be something instructive for us in the antipathy of our forefathers to Pitt's income tax. After the war they would not have it at any price, or listen to any proposal for continuing it. They had a well-founded dread that if they allowed it to be reimposed as a peace tax they might never escape from it, and our own experience has fully justified their fears. When Peel revived the tax in 1842, it was again to be a temporary measure. This time its special object was to be to fill up the gap in the revenue caused by the sacrifice of several millions a year of customs duties. When it had fulfilled that mission, other emergencies arose, and it drifted on until the Crimean war came along. Then it became a war tax once more, but never in those days did it approach Pitt's 2*s.* in the £, much less our own 2*s.* 6*d.* in the £ plus super-tax on incomes over £3000 a year. The Government of 1816 asked for a 1*s.* rate to clear off the arrears of war expenditure, but it was indignantly refused.

The revolt against the income tax had a double object. The tax was intensely unpopular in itself, but a still stronger motive for opposing it was the wish to check the extravagant expenditure that had disgraced the closing years of the war. In this crusade the professed economists and free traders were joined by City men, county members, and regular supporters of the Government. An unprecedented flood of petitions from all ranks and classes poured into the House of Commons day by day for weeks on end. They began and finished with remarkable demonstrations in the City. First, the City Corporation sent in a strong protest against the violation of the solemn faith of Parliament, the injustice, vexation and oppression of the tax, and the partiality of taxing in the same proportion incomes of short duration and those arising from fixed and permanent property.

The rush of petitions ended very appropriately and dramatically by the entrance of Sir William Curtis, the City member, with a huge roll containing the names of twelve thousand bankers and merchants. It was the outcome of a mass meeting held in the Egyptian Hall shortly before, and apparently it sealed the doom of the

hated tax. In the teeth of all this popular indignation, Ministers hoped to get a majority of at least forty for their proposal, so they pressed it to a division, and found themselves in a minority of thirty-seven. Seven or eight millions a year of their anticipated revenue was thus cut away at a stroke, and it had to be made good either by retrenchment or increased borrowing. The Chancellor of the Exchequer, in a huff, threw the malt duty after the income tax, which added two and three-quarter millions to his deficit. For the time being it was covered by an additional loan.

To-day our fiscal system is infinitely more complex than was that of 1816. It presents many more points of friction with the taxpayers. Its machinery is far more cumbrous, and many parts of it work badly. The spirit in which it is administered is a great deal more suspicious and exacting than it used to be. Immediately before the war a whole series of novel and vexatious taxes had been imposed in the interest of socialistic experiments. The writer pointed out at the time how embarrassing such a multitude of outside schemes might prove if we ever got involved in a great war. Though little is now heard about these schemes, it stands to reason that they have absorbed a great deal of official attention which might have been much more usefully employed in pushing on the war. When peace returns, if they are not curtailed, they will hamper the efforts of the Government to restore the country to normal conditions. Could not something be done in the meantime to simplify their superfluous intricacies and give the public finances as fair a start as possible in the strenuous period that will be ahead of them ?

It is equally evident that the new era will have to begin with some drastic fiscal changes. Ministers themselves have started one revolutionary agitation of this sort. The Chancellor of the Exchequer plunged the Cabinet and the House of Commons into a veritable cockpit of controversy by his latest scheme of compulsory temperance. His thick-and-thin supporters apparently forget that public revenue equal to the whole annual cost of the

navy is involved in this sweeping proposal. In 1913–14 the aggregate total of excise and customs duties on alcoholic liquor, plus distillers', brewers', and publicans' licences, was £43,265,000. In the same year the expenditure on the navy amounted to £44,085,000. If the greater part of the liquor revenue is to be thrown overboard, fresh means of maintaining the navy will have to be discovered.

Discussion of the drink question as such would be out of place here. but there is a fiscal problem connected with it which will have to be solved before the new financial regime can be started on the return of peace. A still larger and equally urgent problem of the immediate future concerns the industrial materials and appliances which we have hitherto been obtaining from Germany. Aniline dyes are the most notorious example of our present dependence on Germany for supplies which we cannot do without, and cannot get elsewhere, least of all in our own country. As may be learned from a previous chapter,[1] this all-important subject has so far been handled in the worst manner of official amateurs. If means cannot be found of putting it into business shape before the close of the war, it will give Germany a trump card to play in the peace negotiations.

We may take it for granted that the progress of this misbegotten Board of Trade bantling is being vigilantly watched both in Berlin and at the German aniline-dye centres. Every new phase of it they will find more amazing than the last. The finishing touch has been given to it by linking it up with the Marconi Committee of evil memory. Both the confidential guardians of the Marconi inquiry reappear actively in the aniline dye muddle. To give zest to their new performance, they have taken opposite sides in it. While Mr. James Falconer figures as Chairman of the British Dyes, Limited, Mr. Handel Booth leads the chorus of ridicule and abuse directed against it. But it has been reserved for the chairman himself to furnish the most cruel criticism that has

[1] Chapter XV, "State Trading Ventures."

been passed upon it. The *Morning Post* having alluded to Mr. Falconer's appointment as a specimen of the numerous jobs which result almost inevitably from the pressure of political exigencies, an indignant denial was at once hurled back by the outraged politician :

"It is not the case," wrote Mr. Falconer, "that I was appointed a director of the British Dyes Company by the Government, or that they were in any way responsible for it. The fact is, that I was invited to join the board by the committee of traders interested. At first I declined, on the ground of personal and professional inconvenience, *and also because I had no special acquaintance with the business ;* but subsequently I received a unanimous request from the members of the committee to reconsider my decision, and I agreed to do so.

"The invitation was afterwards repeated unanimously by the enlarged committee, and I joined the board and was appointed deputy-chairman. On the resignation of the chairman, Sir Mark Oldroyd, in consequence of an illness, I was appointed chairman of the company."

In his wrath Mr. Falconer has blindly given himself and the British Dyes Company away by confessing that he declined the first offer of a directorship on two grounds, one of them being that "he had no special acquaintance with the business." But his fellow-directors, instead of considering that any drawback, made him deputy-chairman, and on the resignation of the original chairman, Sir Mark Oldroyd, they elevated him to the chair.

Many of my readers may have had painful experience of industrial companies, the directors of which have, like Mr. Falconer, "no special acquaintance with the business." Such an admission would keep any prudent man out of the company, even if it were to have a million and a half of public money to experiment with. But this is more than an every-day promotion. Its own capital and the Government subsidy, lavish as that may seem, are not the principal stake. The future of our whole textile industry, estimated at £300,000,000 per annum, is involved in it. If that industry is to be made, as it ought to be, quite independent of the Germans, a fresh supply of aniline

dyes equal to £2,000,000 per annum must be speedily obtained. Meanwhile the Government is still trying to obtain aniline dyes from Germany, and the German manufacturers have had the joyful satisfaction of refusing them.

How this aniline-dye question may stand when the peace negotiations begin is beyond existing imagination. There is too much reason to fear that it will not have made great progress if it is left entirely to Mr. James Falconer and his British Dyes, Limited. It may thus become an awkward element in the peace negotiations. It may even have some influence in prolonging the war. The Germans have apparently taken it into their heads that they can retaliate on us for cutting off their foreign food supplies by cutting off certain exports of theirs which we must have. A business man's reply to such a boycott would have been to find substitutes elsewhere as speedily as possible. The Ministerial method is to appoint another Committee. It is said that there are already thirty-seven Emergency Committees deputising for the various public departments, to say nothing of timber-purchasing and other agents. The typewriting, book-keeping, accounting, and other office work they are piling up may one day rival the mountain of emergency rules, royal proclamations, and Orders in Council which preceded them.

In a lawyer-made war there must necessarily be many things which mere laymen cannot appreciate; which, in fact, they dislike and distrust, though the "Defence of the Realm Act" forbids them to say so. It is a still more disquieting prospect that the lawyer-made war must end some time or other in a lawyer-made peace. And what may follow that is a very grave consideration. Whether the permanent fruits of the war are to be anything like an adequate return for its cost in human life, human suffering, and destruction of property, must depend on the energy with which it is prosecuted to the bitter end. The more thorough the finish the larger the claims that the Allies may make on their defeated foes; the more they may be able to extract from a vainglorious enemy, who considered himself invincible; the higher will be

their financial credit when they begin the world anew: the easier it will be to fund their enormous war debts and to provide for their ultimate liquidation; the less crushing will be the burden of war taxes on their industry and commerce; the smaller danger there will be of a terrible reaction ending in general misery such as followed the Napoleonic peace of a century ago.

How many of us are looking these questions straight in the face, and giving them in our hearts honest, courageous answers? Are even our rulers doing it, to say nothing of the man in the street? Is not the air still heavy with catchwords, shibboleths, and claptrap, which make neither for fighting efficiency nor successful peace-making? "Business as usual," "silver bullets," "war bonuses," "the lure of drink," "strike conferences," "separation allowances," "Love your enemy," "Don't humiliate Germany," "Why does not God stop the war?" are surely miserable rallying cries with which to lead a great nation against the powers of hell incarnate. From beginning to end they have not a single note of high patriotism in them. They do not suggest a thought of self-sacrifice or passionate devotion to the sacred cause for which the flower of our manhood are laying down their lives.

In such matters let us not disdain to take a lesson even from the worst and most ruthless of our enemies. That horrible fetish, which the Germans call "Kultur," has one redeeming merit, which, to our cost, we have hitherto overlooked. In the German mind it stands for national idolatry. Germans, high and low, rich and poor, Junker and socialist, military and civilian, worship the State as a God. It is a Juggernaut God, not for their enemies only, but for themselves as well. It has condemned them to forty years of iron discipline, but they love it all the more for that. It has gagged and bullied and drilled them into machine-made soldiers, and still they love it. It has plunged them into a war of hatred and annihilation, but still they adore it and throw away their lives for it.

As the war proceeds they are giving nearly every day fresh proof of their infatuated loyalty to their Juggernaut.

They are handing over their hoarded gold to the Imperial Reichsbank in exchange for paper, which a year or two hence may be as dead as French assignats. They have surrendered practically all their stores of grain and potatoes to the Fatherland. Now, for the sake of the Fatherland, they are contentedly eating "potato bread" —the latest form of kitchen "frightfulness." In order to prepare them for the last extremity of war—general starvation—the "potato bread" test was applied betimes. They were put on to it long before it had become absolutely necessary, and they took to it like lambs. No other people in Europe, not even the Russian *mujiks*, would have submitted so meekly to such an ordeal.

For the seventy millions of Germans on whom we are making war, "Kultur" is a new Teutonic religion, and the Kaiser is its prophet. He is worshipped as its Mahomet, and the "potato bread" is one of its symbols. It is intended for home use, just as submarines, Zeppelins, and poisonous chemicals are the foreign weapons of "frightfulness." To eat "potato bread" day after day, and possibly for years together, is surely one of the hardest sacrifices a man could be asked to make for his country. Terrible as it is, the Germans are making it gladly. While among us hardship and privation are as yet unknown, the Germans are voluntarily and systematically stinting themselves for their Juggernaut. Before a single salary has been reduced or the smallest economy attempted in our public service, the Germans have literally placed all they have—soul, body, and property—at the mercy of the State: the idol they worship so passionately, that they will risk ruin and death for its sake.

Amid all their "frightfulness" there is a passion of self-abnegation which steels the Germans to fight for victory at any cost. Soldiers and civilians alike are prepared to pay the utmost penalty of success. Should we not ask ourselves, while there is yet time, what is the worth of our catchwords and shibboleths against such a national homicidal mania? If British optimism was ever a deadly peril it is now. "Don't humiliate Germany" is as yet a very premature appeal. People who deliber-

ately condemn themselves to live on "potato bread" for months or years are not going to be so easily humiliated as we at one time imagined. They may make both their potato bread and their paper money go a long way farther than we have been counting upon. These are the two great moral lessons on the German side of the war. They may be increasingly important factors in its final issue.

The budget speech recently delivered by the Chancellor of the Exchequer (May 4, 1915) contained some interesting comparisons between British and German finance—all favourable, of course, to ourselves. But scant reference was made to what we may soon discover to be the most vital test of financial strength—the power of patriotic thrift and self-sacrifice. The Germans began to exercise this greatest of civic virtues the moment that war was declared. Our politicians have hardly ever suggested such an unpleasant duty, much less set a personal example of it. The Chancellor of the Exchequer has gone in the opposite direction, and at every opportunity has boasted of our boundless resources. Only in his latest budget speech did he exhibit some misgiving. After the usual parade of our statistical wealth he finished in a lower key. "It is vital," he said, "that the national savings should be increased." But he left it there. So did the House of Commons. Not a single hint, official or unofficial, was given as to how the increase was to be effected. Obviously the simplest, surest, and most direct way is to begin at once a national crusade of retrenchment. It is for the £10,000 a year and the £5000 a year men to set the pace. Even the £400 a year politicians may do a little in the way of self-sacrifice.

Our boastful policy of silver bullets and "the last million that tells" may not prove such good practical finance as the "potato bread" policy of the Germans. It not only encourages prodigality, but it discourages the idea of self-sacrifice among the people who stay at home and take no risks in the war. Self-sacrifice should begin at the top, and its leaders are naturally looked for among our rulers, who have taken upon themselves complete

control of the crisis. It may be possible for them to retrench not merely in money, but in officialism. The Treasury, for example, has overloaded itself with duties outside of its own proper sphere, which no single Minister could adequately supervise. Something was bound to suffer while the Chancellor of the Exchequer was having a thousand and one extra calls on his time and attention. Fully three years ago I foresaw the danger of his ever-multiplying enterprises hampering the action of the Treasury in a great war, and distracting his thoughts when they should be concentrated on war finance. The prediction in the following passage, written and published at the end of 1911, is being only too completely verified :

"If by any malign mischance we were plunged into war to-morrow, the Chancellor of the Exchequer would find himself and his department doubly overwhelmed with work : first, the proper legitimate business of the department, which has hitherto been left to take care of itself ; second, the social reform work, which is quite outside of civil administration. Act after Act has been passed to make the Treasury not only a fiscal agency, but a charity organisation society, an insurance company, and an employment bureau. With both hands full of extraneous duties, obligations, and responsibilities, how could any future Chancellor of the Exchequer, whoever he may be, take up the gigantic task of financing a European war, and grapple with it even as successfully as the least successful of his predecessors did ? Unhampered and undistracted as they were by non-fiscal cares and worries, they had more than enough to do raising war loans, levying war taxes, and supervising the enormous expenditures incidental to even a second-rate campaign. What will it be for an unfortunate Finance Minister saddled with Post Office Savings Banks, old age pensions, State insurance, and uncollectable land taxes, who has to provide funds for a great war, in which all the armed forces of the Empire may be engaged ?" [1]

The experience of the past nine months should demonstrate to the dullest intellect that three financial reforms are now urgently needed—first, more effective supervision

[1] *Modern Wars and War Taxes*, p. 259.

of military expenditure ; second, drastic retrenchment in all civil services, national and municipal ; third, absolute concentration of the combined skill of the Treasury and the business world on the problems of war finance. We are only now coming to these problems, and if we are to tackle them successfully, all minor questions and side issues will have to be shelved until the return of peace.

To sum it all up, we are now in the tenth month of this awful war, and how do we find ourselves ? We hold Germany by the throat, but we are as yet far from having beaten her to her knees. The process of beating her to her knees is being carried on at a cost of over two millions sterling per day, much of which is, as usual, being wasted in extravagant or incompetent expenditure. Parliamentary Government is proving itself incapable of speeding up the war. It wastes precious time as well as precious money. The only possible way to speed up will be to create a National Council of War and arm it with autocratic powers to deal with every emergency, civil or military, as it arises (saving, of course, the constitutional authority of the Crown).

For members of such a council the following names suggest themselves—Lord Kitchener, Lord Fisher, Mr. Asquith, Mr. Lloyd George, Mr. Balfour, and Mr. Bonar Law. It will be their business to see that every man in the United Kingdom does his share of the fighting, and that every man and woman not in the fighting line does his or her share in feeding it with all necessary supplies and munitions. Then, while our naval and military leaders are using any and every means at their command to smash the unspeakable enemy, our civil leaders can be overhauling the frightful expenditure to which we have been committed by our financial optimists and " silver bullet " boasters.

From the future conduct of the war not merely party politics, but every kind of politics, parliamenteering and law-mongering, should be completely excluded. War is a business, and not a political or a parliamentary game. When the House of Commons has created a National

Council of War, let it treat itself to a seven months' holiday, as its predecessor did in the similar crisis of a century ago. The Cabinet Ministers not on the National Council would sink into heads of their respective departments, subject to higher orders. Thus we may obtain some real speeding up, but there is little hope of it under a system in which 670 Members of Parliament, twenty-two Cabinet Ministers, and thirty-seven emergency committees, are all coiled up together, overlapping and stultifying each other.

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